THE WALT DISNEY COMPANY 1988 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

(In millions, except per share data)

	1988	1987	Change
Revenues	$3,438.2	$2,876.8	+ 20%
Operating income	884.8	776.8	+ 14%
Income from continuing operations	522.0	392.3	+ 33%
Per share	3.80	2.85	
Net income	522.0	444.7	+ 17%
Per share	3.80	3.23	
Return on stockholders' equity	25%	27%	
Cash flow *	1,075.4	830.6	+ 29%
Stockholders' equity	2,359.3	1,845.4	+ 28%
Per share	17.71	14.02	

*Cash flow excludes unearned royalty advances.

Cover: ***The mouse-eared, 130-foot-high Earffel Tower marks the site of the Disney-MGM Studio and Theme Park at Walt Disney World.***

THE WALT DISNEY COMPANY

Michael Eisner, Roy Disney, Gary Wilson and Frank Wells with model of portion of Disney-MGM Studio Theme Park.

To our owners and fellow Disney employees:

I wish 1988 would never end, because it has been one of those perfect years for all of us. The Walt Disney Company performed in every area like a college student with an A in every course, while my son Breck actually got me through his senior year of high school and now is away at college. (As you can see, college has been on my mind.) For your company to earn five times the net income it did when Breck started high school is almost as big an accomplishment as the completion of his applications to college.

Are we getting too accustomed to the kind of performance we have had? 1988 was great! So was 1987. And '86. 1985–great too! What about next year? What about 1992 or the turn of the century?

Well, I think we are OK on all three fronts. Next year looks good so far, although "so far" in the entertainment business means I think our movie that opens on Christmas Day, "Beaches," will be a smash. (I've seen it, I love it. And, if I'm wrong, in next year's annual letter I will not make movie predictions.) 1992 looks good because that's the year we open Euro Disneyland, and the turn of the century looks good because we really think about the future.

But I grew up in a family that taught me not to wish my life away and to enjoy the moment. Therefore, before I disobey grand-maternal guidance and fret over our Paris project, hyperventilate over a possible second gated attraction in Japan or daydream about a new concept for Walt Disney World, I will review this past year with you.

Many financially oriented executives point out that we are not predominantly a motion picture company, that only 33 percent of our revenues and 21 percent of our profits come from the studio division. But in a year when we had three pictures that grossed more than $120 million, even Gary Wilson, who is not only our chief financial officer but *also* the executive vice president of the parent company, gave me permission to proudly herald The Walt Disney Company as a movie studio. I think Roger Rabbit got to Gary.

Other than my 15-year-old son Eric's "Matter and Energy" ninth-grade final exam (Who ever heard of a course called "Matter and Energy"?) "Who Framed Roger Rabbit" caused the most tension in our house. It was the most difficult and the most complicated movie with which I've ever been involved. But between Jeffrey Katzenberg's belief in it and the inspired direction of Bob Zemeckis, it is now among the most successful in film history.

Because "Who Framed Roger Rabbit" was a stunning success, Roger has become quite a star. As is often the case in Hollywood (even if one's headquarters are in Burbank), the triumph of a blockbuster movie frequently goes to the head of the star.

Roger, as his personality would dictate anyway, has become quite taken with his success. He really makes me appreciate Mickey.

I do not want to appear down on Roger. It's just that we are all getting tired of sending him flowers, taking him out to lunch, complimenting his acting and renegotiating his deal.

But the real political problem came when he insisted on being on the cover of this annual report. I had already promised Dick Nunis, who runs our parks, that the cover would call attention to the Disney-MGM Studio Theme Park, our third gated attraction at Walt Disney World, scheduled to open this spring.

We try to save our covers for major events in the year ahead, not successes from the previous year.

Roger said he understood–but then why, he wondered, wasn't he on last year's cover? I told him Mickey's 60th Birthday deserved that honor. That was the wrong thing to say. Roger bounced around the room and wouldn't settle down until I promised something special in this annual report.

We agreed on a "cutout" to be placed in this letter, and it was settled, or so I thought–until I brought him samples of his page (like most stars, Roger has final photo approval). We argued. He wanted a "popout" that cost $1 a copy, or $280,000. I wanted a simple picture (nice, I assure you) that cost six cents a copy. We try to control costs at your company.

But Roger and I couldn't make it work. He pointed out that I should have more respect for an actor (and a creative one at that) who will make the company more than $100 million. You know what? He was right. We must always respect creative personnel. We must always stand aside for the creative idea. We must always remember that this company was built on a creative foundation. As Walt said, "It all started with a mouse."

Roger finally agreed to the cutout you see in front of you. It cost 10 cents a copy. Talent relations! Worth it, don't you think?

After exhausting most of my superlatives in last year's letter, I vowed I would be more conservative this year. I can tell you now that won't happen.

Actually, it would be very difficult for me to hold back my enthusiasm even under ordinary circumstances. What makes it especially difficult now is that 1988 was not only very good for the entire company, but in our filmed entertainment area it turned out to be a fantastic, unbelievable year of years–the greatest in our history.

How restrained can I be in describing a period in which "Three Men and A Baby" broke all company records while grossing more than $167 million, "Good Morning, Vietnam" piled in with another $124 million and "Who Framed Roger Rabbit" soared past $150 million at the domestic box office?

How can I *not* use superlatives just remembering that the first two–"Three Men" and "Vietnam"–made Disney the first studio in the history of Hollywood to release back-to-back films grossing more than $100 million?

And surely it's worth more than a footnote that Disney moved into first place in domestic box office in 1988 among all motion picture companies...all the way up from dead last in 1983.

In fact, I can think of nothing but superlatives to describe the stunning performance of the entire Walt Disney Studios team, starting with Chairman Jeff Katzenberg and President Richard Frank.

I finally found somebody who celebrates his birthday more often than my 10-year-old son Anders. (I am embarrassed to admit that in addition to his party at school, he had a party at home and then another one when his grandparents could get to California to celebrate.) But somebody out-partied him: Mickey Mouse.

As everyone in the world must now know, Mickey celebrated his 60th birthday during 1988, and the year was filled from one end to the other with memorable events marking the milestone.

Mickey seemed to be everywhere: at the United Nations, where he was honored as Emissary of Good Will to the world; in commemorative supplements in *Time*, *Fortune* and *People* magazines; dancing with New York Mayor Ed Koch in lower Manhattan and with Mischa the Bear in Red Square, and as "Little Mouse on the Prairie," a planted silhouette in an Iowa cornfield seen by millions of people passing over on transcontinental flights.

The culmination of this special year took place at both U.S. theme parks on Mickey's actual birthday, Nov. 18, when more than 10,000 disadvantaged children from 181 cities in nine countries, including the Soviet Union, were flown as guests of Disney and Delta Airlines to join the celebration.

But 1988 will go down in Disney history as more than the year of the movie blockbuster and of Mickey's 60th birthday. In line with our objectives and expectations, it was the fourth straight year in which all parts of the company contributed record revenues. We topped $3 billion for the first time in Disney history.

Our income from continuing operations for 1988 climbed to $522 million, or $3.80 per share, from $392 million, or $2.85 per share, in 1987, an increase of 33 percent. More importantly, cash flow increased 29 percent from about $831 million to more than $1 billion.

We plan to continue on our charted course, which calls for aggressive growth in shareholder values. Our strategic plan for achieving this goal has two components: continued dramatic growth of our existing businesses plus use of our tremendous financial capacity for selective expansion into new related businesses.

Our healthy cash flow enabled us to invest in myriad construction projects, including new attractions and new entertainment complexes and hotels at our parks, as well as many Disney Stores. This strategic use of our cash flow is the strength of your company.

Whether we are building a Disney presence in a new location (Euro Disneyland) or adding a new attraction in an existing location or new hotels, these projects represent use of cash flow from our good fortune over the past four years. We simply want to achieve maximum performance in our existing lines of business to insure long-term growth.

In addition to internal growth, acquisitions are strategically designed to build on and strengthen our existing lines of business. Therefore our recent financial achievements enabled us to fund significant acquisitions and business ventures that will improve our position in each of our major business areas: theme parks and resorts, filmed entertainment and consumer products.

During the year, we completed these important acquisitions and ventures:

- Independent television station KHJ, Los Angeles, our first venture into TV broadcasting;
- The Wrather Corp., with its Disneyland Hotel and valuable expansion acreage at our Anaheim park as well as the operation of the Queen Mary and Spruce Goose tourist attractions at nearby Long Beach;
- A joint venture with Rupert Murdoch's News International to provide Sky Movies–a new feature film and entertainment service–and The Disney Channel

to TV viewers in the United Kingdom and the Republic of Ireland;

- Childcraft, Inc., a leading catalog marketer of children's products. The acquisition increases the revenue base of our entire consumer products operation by 25 percent.

In another consumer product area, we opened 10 new Disney Stores, bringing the year-end total to 13. We expect to continue adding stores, with a 1992 target of 100, all to present the same friendliness and service we already display on stage at Disneyland.

I've already covered our rise to number one in domestic film box office. We also enjoyed tremendous growth in international film and television revenues. Both areas have a bright future.

Meanwhile, our presence in domestic television kept growing. "The Golden Girls," which continues to be a prime-time network leader, was joined in the fall by a spinoff, "Empty Nest," which many hailed as the best new show of the season. Our "Magical World of Disney" moved this fall to the number one network, NBC.

The Disney Channel continues to be one of the fastest-growing cable outlets, broadening its programming focus to appeal to the entire family. In home video, we sold more than three million units of "Lady and the Tramp," then surpassed that with sales of more than six million units of "Cinderella." We became the industry's number one home video company in gross sales.

We've added to our almost instant success in television syndication. "DuckTales" has been so well received that it will be joined by a companion animated half-hour, "Chip 'n' Dale's Rescue Rangers," next fall. "Win, Lose or Draw" achieved top ratings among all new game shows in its first season.

In January, we started construction on Metropolitan Life Insurance Company's Wonders of Life pavilion, which will open late in 1989 at Walt Disney World's Epcot Center. We also broke ground in January for Florida's largest convention hotel complex, with the Dolphin and Swan hotels as the centerpiece and the Yacht Club and Beach Club hotels as neighbors.

Later in the year, we opened the luxurious Grand Floridian Beach Resort, the Norway pavilion, Mickey's Birthdayland and the first phase of the Caribbean Beach Resort. And Splash Mountain will be the world's largest flume ride when it opens at Disneyland.

The new year will also see the opening of three major, separately ticketed entertainment complexes at Walt Disney World: the spectacular Disney-MGM Studio Theme Park, Typhoon Lagoon (the world's largest water park) and the Pleasure Island nighttime entertainment district.

In France, Euro Disneyland will begin rising from the fields 20 miles east of Paris. (Someday I will look back on the above sentence–say in 1995–and not believe how little space I gave here to this fantastic project, the biggest in our history.)

* * *

It is now four years since Frank Wells and I came to Disney. During that period, we have been joined by Gary Wilson in setting a course that will assure steady growth and profitability through the turn of the century.

Thanks to the talent and efforts of the 39,000-plus Disney cast members throughout the country and the world, we've been able to keep up the Disney momentum. Mickey and I even ended up on the cover of Time magazine in a major story about the company, although as I look at the many copies scattered around my mother's apartment (What can I say, somebody had to save them), I realized not only that Frank should have shared that cover but that so should the entire Disney cast. If there ever was a company that is a team, it is Disney.

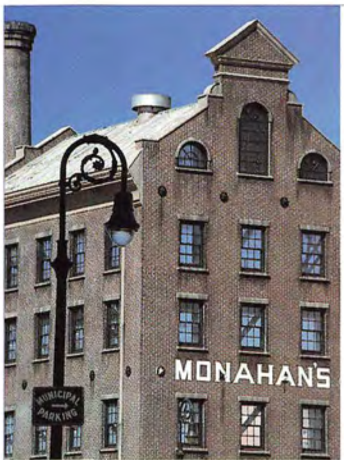
Meanwhile, Roger hovers over this letter, reminding us all, in his own insistent way, that dreams still come true in Hollywood (and Burbank, too).

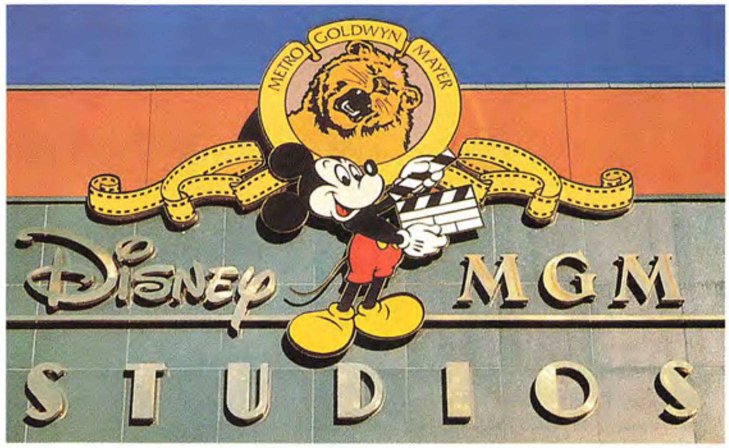
Frank Wells, Gary Wilson and Roy Disney join me in thanking all of you for your continued support and encouragement.

December 5, 1988

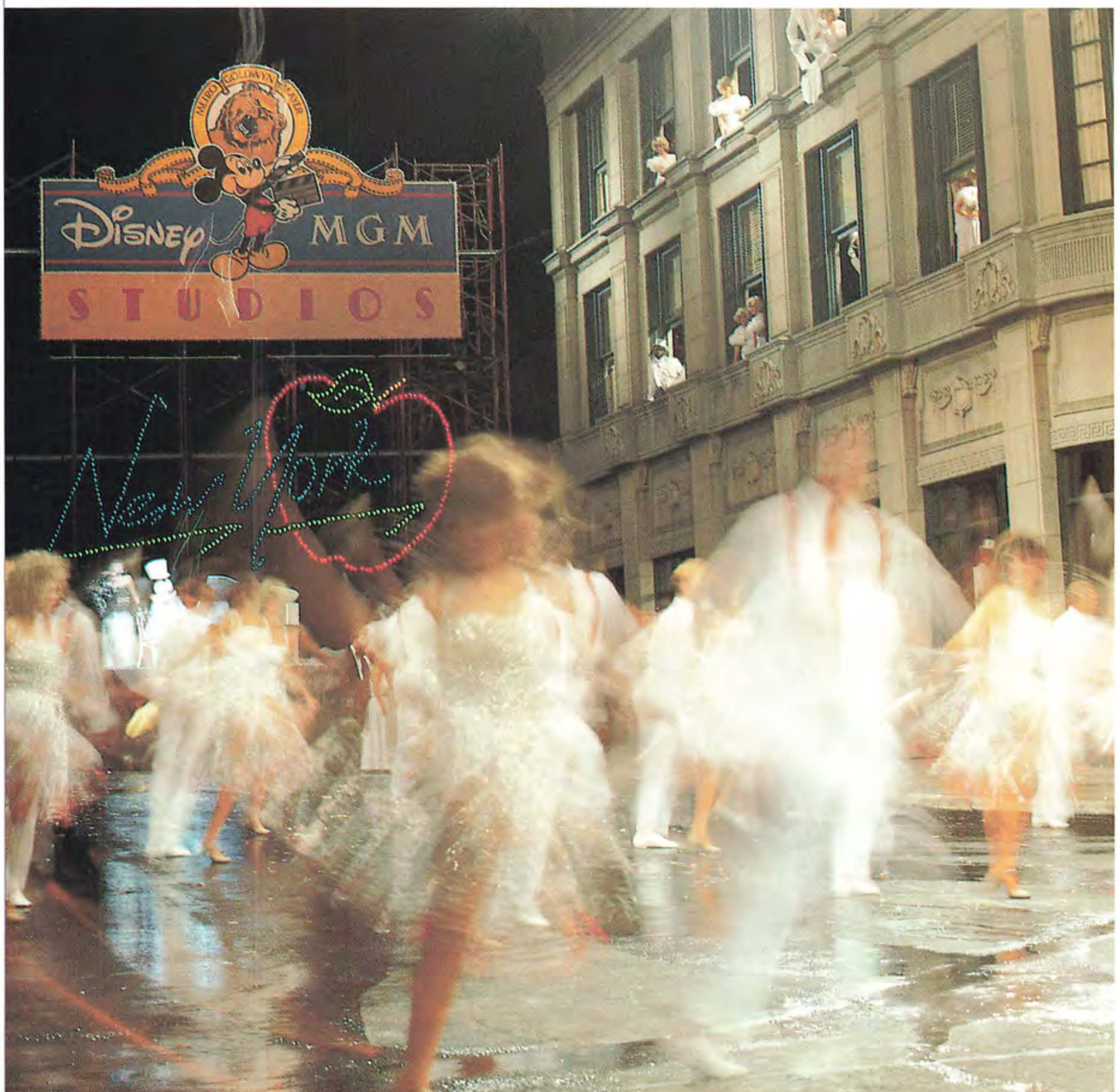
Michael D. Eisner

Michael D. Eisner
Chairman and Chief Executive Officer





The Disney-MGM Studio Theme Park opens in May at Walt Disney World, complete with a precise replica of Grauman's Chinese Theater and a palm-lined Hollywood Boulevard of the 1930's.


DISNEY MGM
STUDIOS
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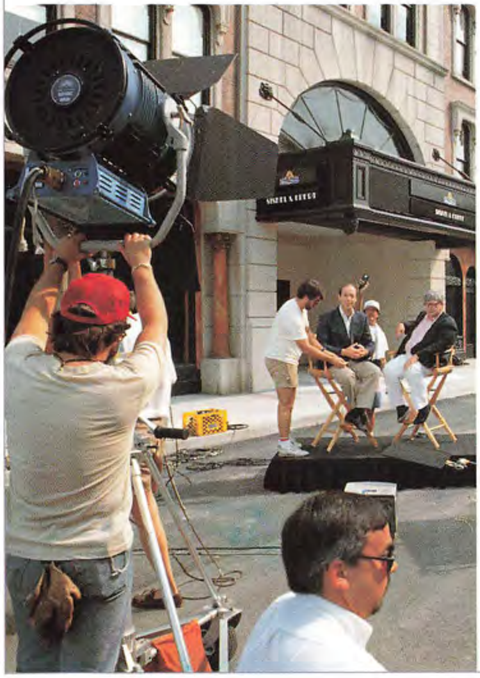
Guests at the Disney-MGM Studio Theme Park will watch movie and TV production, see Disney animators at work, experience special-effects adventures and participate in the Sound Effects Studio. Disney's most ambitious ride-through attraction, The Great Movie Ride, will offer dimensional sets and props, special effects and live action. The 130-foot-high Earffel Tower (opposite page) will be a beacon to the attraction. Antique car, below, is part of gangster scene in The Great Movie Ride. Below left, syndicated TV show "Siskel & Ebert" is filmed on Studio Theme Park's New York Street.



WALT DISNEY ATTRACTIONS

Disney's U.S. theme parks, undergoing the largest construction and expansion program in the company's history, continued to thrive and prosper in 1988, attaining attendance totals second only to the all-time record figures of the prior year.

After a tentative start, Walt Disney World and Disneyland finished fast, and that momentum is expected to continue into next year and beyond. In Florida, three separately ticketed attractions–the Disney-MGM Studio Theme Park, Typhoon Lagoon and Pleasure Island–moved nearer scheduled 1989 openings. In California, Splash Mountain, the world's longest log-flume ride, was being readied for start-up.

Hotels were big news at both U.S. parks. At Walt Disney World, the Grand Floridian Beach Resort made its glittering debut in June; the modestly priced Caribbean Beach followed in October. A continent away, the company took possession of the 1,200-room Disneyland Hotel and 26 adjacent acres with the purchase of the Wrather Corp.

Tokyo Disneyland continued to set attendance records. On Sept. 9, less than five and a half years after its 1983 opening, the park passed 60 million in attendance–a figure equal to half Japan's population.

WALT DISNEY WORLD

It was a year of enormous activity at the world's foremost destination resort. Record numbers of international guests visited the park, attracted by increased overseas air service, excellent promotional fares into Orlando and favorable dollar exchange rates.

In January, ground was broken for the Wonders of Life pavilion in Epcot Center's Future World. Sponsored by Metropolitan Life Insurance Co., the 100,000-square-foot, gold-domed structure will house a thrill ride that uses sound, film and flight simulator technology to take guests on a tour of the human body and its immune system. The pavilion will open late in 1989.

Also in January, Florida's largest convention hotel complex began to take shape just west of Epcot Center. Together, the Walt Disney Dolphin and Walt Disney Swan will comprise nearly 2,300 guest rooms and 200,000 square feet of meeting and convention space beside a 50-acre lake.

Major hotel chains will operate both facilities. The 767-room Swan is scheduled for a fall opening. The Dolphin, with almost twice that many rooms and rising 26 stories, will open in 1990. The complex, designed by the noted architect Michael Graves, embraces a unique design concept that has come to be known as Disney entertainment architecture.

"IllumiNations," a dazzling light show, began a year-long run in January. The 15-minute spectacular spread its magic from the center of World Showcase Lagoon, lighting the surrounding international showcases with searchlights, fireworks and vivid laser-beamed colors. The musical score was provided by the Toronto Symphony Orchestra.

The Disney-MGM Studios began operations in February when scenes from "Splash Too," a Disney Sunday Night Movie, were filmed there. In the months that followed, a Touchstone film, "Ernest Saves Christmas," was completed at the studios. In addition, the syndicated "Win, Lose or Draw" and "Siskel & Ebert" began producing weekly TV programs there.

"They're calling the new Disney-MGM Studios at Walt Disney World a Magic Kingdom for producers," reported David Crumpler in the Jacksonville (Fla.) *Journal*.

The Disney-MGM Studio Theme Park, a separately gated attraction to open next spring, will enable guests to "ride through" scenes from famous movies and watch actors and animators at work. The Sony Corporation of America will present audio and video theaters there.

The 130-foot-high Earffel Tower marks the site, complete with a 32,000-pound Mouseketeer cap 28 feet in diameter. Studio gates lead to a palm-lined Hollywood Boulevard straight out of the movies' golden era.

The Great Movie Ride is the attraction's focal point, with its dimensional sets and props, live action, special effects and Audio-Animatronics characters interacting with live actors for the first time.

In the 2,000-seat Indiana Jones Stunt Theater, performers will escape from exploding trucks and airplanes,

Norway, Gateway to Scandinavia opened in the spring at Epcot Center's World Showcase with authentic shops, music and a museum in a wooden stave church, far right. Facing page, the France pavilion reflects the brilliant colors of the World Showcase nighttime spectacular, "IllumiNations."

outrun crushing boulders and dodge machine gun bullets. The 25-minute show is designed to make members of the audience feel that they are on a set while stunts are being filmed.

Elsewhere, guests will experience flash floods and earthquakes in Catastrophe Canyon, mechanical and optical tricks in Special Effects. In 1990, the same Star Tours attraction that has become so popular at Disneyland will open in Florida.

June was an especially busy month for the park. At the Magic Kingdom, Mickey's Birthdayland, part of the company's nationwide celebration of Mickey Mouse's 60th birthday, opened on a three-acre site near Fantasyland. It has since become a permanent attraction at the park.

Guests board Mickey's Birthday Express at the Main Street Train Station for a grand-circle trip to Birthdayland. There, amid shows and attractions, music and games, Mickey and other Disney characters pose for photographs with guests.

"Norway, Gateway to Scandinavia," the 11th pavilion in Epcot Center's World Showcase, opened with appropriate fanfare. Guests explore precise replicas of a Norwegian castle and wooden stave church, ride into a North Sea maelstrom and journey across an Arctic wilderness.

Just as the Norway pavilion evokes images of the land of the midnight sun, the Grand Floridian Beach Resort recalls the leisure and grace of the 19th Century. It is a grand hotel of gabled roofs and Victorian balustrades, typical of the days when Astors and Vanderbilts left ice and snow behind to relax in Florida's warm winter sunshine.

The 900-room hotel–probably the first such resort to be built in this century–offers wicker rocking chairs, spacious verandas and 120 miles of wood scroll work, turnposts and curved moldings. It occupies 40 acres of picturesque beachfront on the west side of the Seven Seas Lagoon. More than 1,500 journalists and travel agents covered its formal opening June 24.

But Walt Disney World is educational as well as entertaining. At Epcot Center, a laboratory capable of cloning fruits and vegetables from single plant cells was opened to the public.

Guests on the boat ride through The Land pavilion can watch as biotechnicians use genetic engineering and tissue culture propagation to develop new plant varieties that will increase yields and resist insects and drought.

Improving peanut varieties is a particular goal of the work.

"This is a small lab, an exhibit," U.S. Secretary of Agriculture Richard Lyng said at the laboratory's dedication in September, "but it's also on the cutting edge of biotechnology."

At Disneyland, George Bush, then vice president, saluted U.S. Olympic athletes (top and top left). Splash Mountain (right) will be park's fastest ride. In Florida, special train (opposite page) and Duckburg USA (above) enhanced Mickey's Birthdayland. The Grand Floridian Beach Resort (left) revives 19th Century elegance.

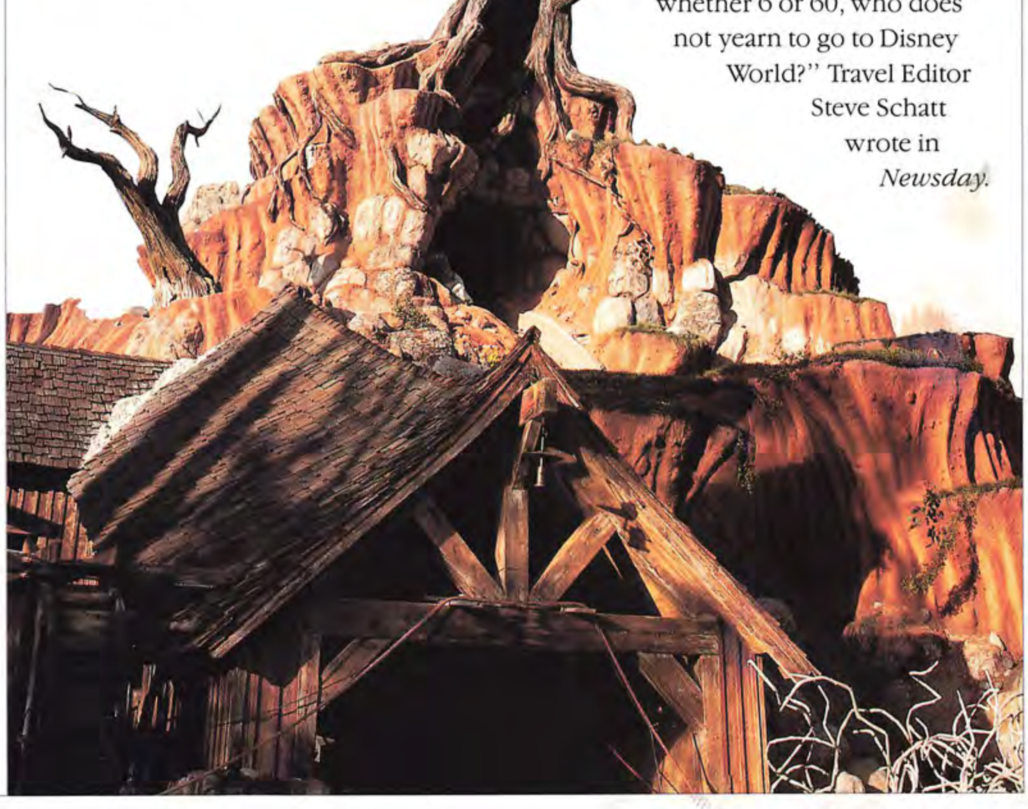
The pace at Walt Disney World will accelerate in the new year. In addition to further hotel openings and the Studio Theme Park, Typhoon Lagoon will make a special splash next summer.

With a 95-foot "mountain" as its centerpiece, this separately gated attraction covers 50 acres. Guests will snorkel among thousands of tropical fish in special salt-water lagoons or ride six-foot man-made waves in the surfing section.

Pleasure Island will bring new nightlife to the park. Situated on a six-acre island, it will offer restaurants and dancing, comedy and a 10-screen movie theater. There's even a separate disco for youngsters that serves only soft drinks.

And DreamFlight, presented by Delta Air Lines, will give Tomorrowland guests an amusing and informative look at the history–and future–of aviation. It opens in June.

"Breathes there a child, whether 6 or 60, who does not yearn to go to Disney World?" Travel Editor Steve Schatt wrote in *Newsday.*



RICHARD S. NUNIS
President
Walt Disney Attractions

THEME PARKS AND RESORTS

(In millions)	1988	Change	1987	Change	1986
Revenues	**$2,042.0**	**+11%**	$1,834.2	+20%	$1,523.9
Operating income	**564.8**	**+ 3%**	548.9	+36%	403.7
Operating margin	**28%**		30%		26%

Revenues and operating income in 1988 and 1987 benefited from higher per capita guest spending, which was primarily influenced by price increases. In 1988, the Company's total theme park attendance was the second highest in the Company's history but 5% below the record-setting level of 1987.

Attendance at Walt Disney World theme parks–Magic Kingdom and Epcot Center–was down from the 1987 levels, which were favorably affected by the 15th anniversary promotion. Attendance at Disneyland was down from the prior year, which benefited from the opening of Captain Eo *and* Star Tours *attractions at Disneyland.*

Operating margins have improved significantly over the 1985 margin of 20%. The margin decreased in 1988, reflecting the impact of lower attendance and increased marketing promotions.

"Not content with the world's biggest and best-known resort, Disney has spent megamillions over the past several years to add almost every conceivable lure known to man, child or mouse.

"Still not interested? Just sit tight, and Disney may add something to change your mind."

DISNEYLAND

After opening the spectacular Captain Eo and Star Tours attractions in successive years, Disneyland emphasized special events in 1988 that kept the turnstiles spinning.

The park gave U.S. athletes a dazzling sendoff on their way to the Seoul Olympics, with Vice President George Bush present at the final ceremonies. Throughout the summer, Mickey Mouse's 60th birthday event was the center of attention.

Circus Fantasy helped welcome the new year. The Magic Kingdom came alive with the color and excitement of clowns, jugglers, daredevils and performing animals.

Spring brought with it the echoes of a bygone era. Blast to the Past featured 50's-style rock 'n' roll and classic tail-finned convertibles, parades and thousands of prizes for guests.

Even the humble Hula Hoop came in for special attention on its 30th anniversary, with 1,000 people "hooping it up" simultaneously to earn a place in the Guinness Book of World Records.

In April, Sweden's King Carl Gustaf and Queen Silvia visited Disneyland, enjoying Star Tours and Pirates of the Caribbean, among other attractions.

An array of Hollywood celebrities, including Sylvester Stallone and Annette Funicello, were among the special guests when the park kicked off Mickey's 60th birthday party on Main Street, U.S.A. For almost three months a daily parade and street show celebrated six decades of the world's favorite mouse.

For the third straight year, Town Square was the jumping-off place as 120 antique vehicles–all vintage 1936 or earlier–participated in the 3,800-mile Great American Race. It ended 12 days later at Boston City Hall.

Among the classic entries: a 1909 Stanley Steamer Mountain Wagon, a 1912 American La France fire engine and a 1912 Metz Roadster, the first car to be built from a mail order kit. Several Disney characters, including Mickey Mouse and Chip 'n' Dale, accompanied the drivers.

The State Fair returned in the fall, offering nostalgic parades, midways, even pig races. An antique Ferris wheel offered rides in the Central Plaza.

At the State Fair Games, representatives of 21 TV stations in the U.S., Canada and Great Britain competed in hilarious contests that raised money for each station's favorite charity.

The pace will quicken this year when Splash Mountain welcomes its first guests. The attraction, a water-park ride-through, features the music and characters from Disney's classic film, "Song of the South."

But Splash Mountain is more than Brer Bear and Brer Rabbit and cheerful sounds. The 47-degree, 52-foot descent reaches a speed of 40 miles per hour, making it the fastest ride ever built at Disneyland.

The adventure also features the biggest animated prop ever built. The showboat in the rousing finale is 50 feet wide and 30 feet high and carries 21 animated characters singing "Zip-a-

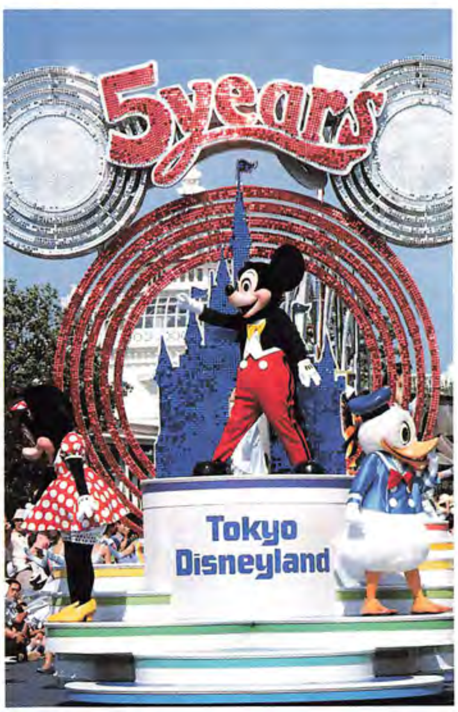
Dee-Doo-Dah" as the ship rocks in time to the music.

In explaining Disneyland's special charm, Richard P. Carpenter wrote in the *Boston Globe*:

"There is the feeling of knowing that Walt Disney actually walked the streets of Disneyland. . . and slept many a night in an apartment on Main Street. Disneyland is a very special part of Walt's legacy, and that alone is reason enough for a true Disney fan to visit."

TOKYO DISNEYLAND

April 15 was the kickoff date for a year-long celebration of the park's fifth



birthday. More than 3,200 press people from around the world attended the opening events, which included the inaugural flight of "Flying Mickey," a hot-air balloon.

At the gate, commemorative gifts and complimentary admission tickets were given to thousands of guests. In addition, a nationwide photo contest was held in conjunction with the big birthday party, with five grand prize winners receiving automobiles.

Construction began for Star Tours. The flight simulator-based thrill ride is expected to become the park's most popular attraction when it opens in mid-year.

Three more official Tokyo Disneyland hotels opened in 1988. The Sheraton Grande Tokyo Bay, Daiichi Tokyo Bay and Tokyo Bay Hilton International have increased to 2,500 the number of available rooms.

Japan Credit Bureau (JCB) and Nippon Express, a worldwide delivery service, joined the park's participant family, presenting Captain Eo and the Skyway attraction, respectively.

The Maihama train station opened in December, linking the park, via a rail/subway connection, with downtown Tokyo. When the full railway route is completed in 1990, it will connect the park with the bullet train network that serves all of Japan.

Said *Forbes* in a July story: "They won't buy our cars or our machinery and they resist our steaks and oranges, but we may finally have found something to sell the Japanese that we do better than they do: entertainment."

■

Left page, the Disneyland Monorail received new cars. Tokyo Disneyland's fifth anniversary celebrations include the hit musical "One Man's Dream" (above) and "Disney Classics on Parade" (left). Star Tours opens in the summer. Bottom, the view from World Bazaar.

THE WALT DISNEY STUDIOS

At The Walt Disney Studios, 1988 was a year when dreams became reality, an animated rabbit named Roger became the top draw at the box office and Mickey Mouse celebrated his 60th year of stardom with special events all over the world. Revenues for the studio passed $1 billion for the first time as record performances were posted in every one of its filmed entertainment divisions.

The motion picture division became the industry leader for the first time in its 65-year history and had captured more than 20 percent of the total box office by early December.

Touchstone Pictures' "Who Framed Roger Rabbit" became Hollywood's top grossing film with domestic receipts of nearly $150 million. Such other box office hits as "Cocktail," "Big Business" and "Ernest Saves Christmas" and the continued success of "Three Men and a Baby" and "Good Morning, Vietnam" maintained the momentum.

Animation also had a great year. The studio's 27th full-length feature, "Oliver & Company," opened to critical acclaim and healthy box office returns, and the latest reissues of "Bambi" and "The Fox and the Hound" proved more popular than ever with family audiences.

Buena Vista Home Video, with a succession of audience-pleasing Disney and Touchstone titles, was poised by year's end to become the industry leader. Innovative marketing campaigns aimed directly at the consumer, popular sell-through pricing and alliances with Coca-Cola, McDonald's and Procter & Gamble led to the record performance.

The eagerly awaited home video release of Walt Disney's animated classic "Cinderella" sold more than seven million units by the end of November. That doubled the company's previous record, established last year by "Lady and the Tramp," and spurred the entire 36-title Christmas campaign to record sales.

In syndication, Buena Vista Television enhanced its reputation as one of the industry's top suppliers of quality product in 1988. "DuckTales," "Win, Lose or Draw" and "Siskel & Ebert" continued to be tops in their respective fields.

Meanwhile, Buena Vista Television's latest entry, "Live With Regis and Kathie Lee," climbed in the ratings week by week. Movie packages consisting of Disney and Touchstone films also continued to be popular, along with syndicated television episodes from the Disney vaults.

The studio's network television division added several hits to its repertoire, including the prime-time series "Empty Nest" and Saturday morning's "The New Adventures of Winnie the Pooh." "The Magical World of Disney" moved over to the number one television network (NBC) and got a ratings boost with its offering of new Davy Crockett adventures and a recurring series based on "The Absent-Minded Professor."

In pay television, The Disney Channel continued to please its viewers with a wide range of programming aimed at various segments of the audience. With its new series, made for cable movies and variety specials, the channel placed increased emphasis on original programming and continued to be the fastest-growing pay service in the industry. It also reached out to new subscribers through satellites and hotels and was poised to enter the overseas market through a landmark joint venture with Rupert Murdoch's Sky Channel.

MOTION PICTURES

When new management took over the company's motion picture operations late in 1984, it committed The Walt Disney Studios to a number of ambitious goals and an operating philosophy designed to rejuvenate the once-proud motion picture entity.

These goals included:

- concentration on using the entertainment industry's finest writing, directing and producing talent;
- production of 10 to 12 Touchstone features and three to four new family movies annually;
- acceleration of animated feature productions, with a new release planned each 18 months;
- continued reliance on the Disney library for two to three film reissues each year.

Following this very specific road map almost to the letter, the new team led by Jeffrey Katzenberg and Richard Frank, chairman and president, respectively, achieved in 1988–its fourth full year–all of those early goals...and more.

Opposite page: "Chip 'n' Dale's Rescue Rangers" (top) makes its debut on The Disney Channel, then goes into syndication; Mickey Mouse outside St. Basil Church, Red Square, during Soviet film festival of Disney classics. Below, Bette Midler in "Beaches," Touchstone's acclaimed Christmas release; bottom, "Oliver & Company" opened in November to enthusiastic reviews.

Two Touchstone releases during the 1987 holiday season set the early pace, making Disney the first studio in history to bring out back-to-back movies grossing more than $100 million apiece.

"Three Men and a Baby," starring Tom Selleck, Ted Danson and Steve Guttenberg, and "Good Morning, Vietnam," with an Academy Award-nominated performance by Robin Williams, grossed $167 million and $124 million, respectively.

"Shoot To Kill," starring Sidney Poitier, Tom Berenger and Kirstie Alley, and the re-release of "The Fox and the Hound" also contributed to the early-year momentum.

The company's box-office fortunes soared in the summer, led by

the spectacularly successful "Who Framed Roger Rabbit." This ambitious collaboration between Disney and Steven Spielberg's Amblin Entertainment, directed by Robert Zemeckis and starring Bob Hoskins, included animated characters from virtually every Hollywood studio, headed by Roger himself. Critics hailed it as the most sophisticated blend of live action and animation ever achieved.

TV's Gene Shalit called the film "... one of the happiest and most extraordinary movies ever made..."

And Charles Champlin, arts editor of the *Los Angeles Times,* said: "The ingenious melding of animators' ink and human flesh reminds you thrillingly that even after a century, the movies have not exhausted their magic and that there are wonders still to come...."

These and other reviews and word-of-mouth pushed "Roger" to a gross of more than $150 million, making it the number one movie of 1988. Taking into consideration that "Three Men and a Baby" was the top-grossing film released in 1987, this latest box-office accomplishment marked the first time Disney has produced the industry's top film in consecutive years.

With the success of "Who Framed Roger Rabbit," Disney also set an industry record as the first studio ever to release three films ("Three Men," "Vietnam" and "Roger") grossing more than $100 million in a 12-month period.

Also contributing to the summer's sizzle were "Cocktail," starring Tom Cruise, which earned more than $75 million, and "Big Business," starring Bette Midler and Lily Tomlin, which grossed another $40 million.

Scenes from Touchstone's "The Bank Job" (top) and "Three Fugitives," both opening early in 1989. In "Ernest Saves Christmas," opposite page, Jim Varney reprises his familiar role as a cheerful misfit.

Disney's animated classic, "Bambi," which made its debut in 1942, was re-released during the summer and grossed $40 million, a near-record for a reissue.

In October, the spirit of Glasnost and the celebration of Mickey Mouse's 60th birthday prevailed. Vice Chairman Roy Disney led a contingent of Disney executives to Moscow, Leningrad and Tallinn, where they conducted an unprecedented film festival of Disney animated classics sponsored by the USSR commission on cinematography.

As fiscal year 1988 came to a close, Buena Vista Pictures Distribution readied three new live-action films for the fall and Christmas season.

"The Good Mother," a Touchstone release directed by Leonard Nimoy (who also directed "Three Men"), featured Diane Keaton, Liam Neeson and Jason Robards.

"Ernest Saves Christmas," a sequel to last year's popular "Ernest Goes to Camp," attracted large audiences in its opening weeks. It once again stars Jim Varney in his popular role of the dim but good-hearted Ernest P. Worrell. In this modern fable, Ernest must help Santa out of a jam and save the Christmas holiday.

In Touchstone's major year-end feature, "Beaches" (set for a limited December release), Bette Midler returns to the screen in her most challenging dramatic and singing role since her Oscar-nominated performance in "The Rose."

"Beaches," which also stars Barbara Hershey, is the heartwarming story of the lifelong friendship between two dynamic women. Bette performs six musical numbers in this film directed by Garry Marshall.

Another fall highlight was the Nov. 18 debut of Disney's 27th full-length animated feature, "Oliver & Company," starring an all-new animated cast of dogs and cats in an adaptation of Charles Dickens' novel, *Oliver Twist*. The story is set in modern-day New York, and although the characters, style and visual quality are pure Disney, the dialogue and music are contemporary.

"'Oliver & Company' is Dickens with a twist and Disney with a treat," said *Time*. "...From the pros who made 'Oliver' comes the snazziest Disney cartoon since Walt died in 1966."

USA Today awarded the film its highest rating of four stars and said, "'Oliver & Company' is that joyful rarity: a children's movie that many parents will savor as much as their kids ....It works at every level."

Over the Thanksgiving holiday weekend, "Oliver" set an industry record for an animated feature with its per-screen average in its initial engagements and was set to widen its release by mid-December. A soundtrack featuring songs by Huey Lewis, Billy Joel, Bette Midler and Ruth Pointer was introduced on Walt Disney Records.

The release of this latest Disney animated feature marks another turning point in the revitalization of the studio that began four years ago. The animation department is now committed to producing one new feature annually, an ambitious goal that Walt Disney himself once envisioned for the studio. While animated features will still require at least three years to produce, a newly enlarged staff, better planning and overlapping productions make the picture-a-year pace a real possibility.

In fact, Disney animators are already far along in the production of "The Little Mermaid," the first classic fairy tale the company has produced in 30 years. Disney veterans John Musker and Ron Clements are directing the film, scheduled for release by next Christmas. Producer Howard Ashman and his "Little Shop of Horrors" songwriting partner, Alan Menken, have contributed seven outstanding new tunes to this film.

Meanwhile, work is already under way for the 1990 release of a sequel to Disney's popular 1977 feature, "The Rescuers." This time intrepid mice stars Bernard and Bianca travel to Australia on a mission tentatively titled "The Rescuers Down Under."

The coming year holds even more promise for Disney animation.

With the opening of the Disney-MGM Florida Studios, some 80 animators there will resume production of theatrical featurettes in the grand Disney tradition starring the classic characters. Disney's last such featurette was "Mickey's Christmas Carol," produced in 1983.

The studio's 1989 live-action release schedule will get off to a hilarious start with the January release of Touchstone's "Three Fugitives."

Nick Nolte is an ex-con who becomes unwittingly involved with Martin Short, an amateur bank robber desperate to raise money for his 6-year-old daughter. Together this unlikely trio create a trail of comic confusion in a film directed by France's foremost comedy writer/director, Francis Veber ("The Tall Blond Man with One Black Shoe," "La Cage Aux Folles").

In February, Touchstone Pictures presents "New York Stories," a compelling, cinematic trio of tales with the common thread of being set in Manhattan and directed by three of today's most prestigious filmmakers–Woody Allen, Francis Ford Coppola and Martin Scorsese. Among the featured players in the separate mini-movies are Mr. Allen, Rosanna Arquette, Mia Farrow,

Nick Nolte, Giancarlo Giannini, Julie Kavner, Talia Shire and Sofia Coppola.

Touchstone Pictures' "The Bank Job" makes its debut in March. It stars Corbin Bernsen, Lou Diamond Phillips, Ed O'Neill, Ruben Blades and Fred Gwynne. This offbeat comic caper follows four strangers, all skilled cons, who are left to their own devices when the criminal mastermind who sent for them fails to show up for the big heist. Jim Kouf, who wrote "Stakeout," is writer/director.

A Robin Williams film, tentatively titled "The Dead Poets' Society," went into production in November for release next summer. A teacher at a conservative prep school, Robin plays a contemporary "Mr. Chips" who motivates his troubled students with humor and compassion. Peter Weir ("Witness," "The Year of Living Dangerously") is directing.

Also set for next summer is an action comedy, "Turner & Hooch," directed by Henry Winkler. Tom Hanks is a by-the-book police officer who teams up with a mean old junkyard dog (Hooch) on an assignment to crack a smuggling ring and track the killer of Hooch's master. This man-and-dog "odd couple" form a very special relationship as they use their particular skills and instincts to solve the crime.

Two films will begin production in January:

–In "Hard Rain," Tom Selleck plays an innocent man wrongly imprisoned. When he's finally freed after several harrowing years, he must resort to a daring and dramatic scheme to clear his name and resume a normal life. The director is Peter Yates, whose previous hits include "Bullitt" and "Breaking Away."

–An action-filled, big-screen version of "Dick Tracy" is planned for release in 1990. It stars and is directed by Warren Beatty, one of Hollywood's most talented filmmakers.

With an outstanding and imaginative script and the merchandising potential of "Roger Rabbit," this movie could become *the* event film of the season.

–Another notable project, "Blaze," stars Paul Newman in the true-life story of the sizzling love affair between flamboyant Louisiana Gov. Earl Long and the notorious New Orleans burlesque queen, Blaze Starr. This unusual, funny and poignant love story will be directed by Ron Shelton, whose "Bull Durham" was one of 1988's big summer hits. It is scheduled for release next Christmas.

Disney and Touchstone theatrical product was also successful overseas, as indicated by Buena Vista International's second consecutive record-breaking year. With such universally popular hits as "Three Men and a Baby," "Good Morning, Vietnam" and "Who Framed Roger Rabbit," the foreign theatrical division easily surpassed last year's record to finish fiscal 1988 with receipts of more than $250 million.

"Three Men and a Baby" proved popular in many languages, grossing more than $50 million and breaking house records around the world.

"Good Morning, Vietnam," which grossed more than $8 million in Australia and New Zealand alone, was expected to do well in Europe, where it opened late in the year. "Who Framed Roger Rabbit" grossed $35 million in its first few weeks in France, Belgium, Switzerland, Germany and Austria. It is expected to be BVI's biggest hit in history.

The theatrical business was generally excellent in Italy, Germany, England and Australia. Japan, which has lagged in recent years, registered a dramatic turnaround and may well be Disney's number one foreign market in 1989.

Because many Touchstone domestic hits are only now being released overseas, excellent results are projected for the coming year. The recent decline of the dollar is also expected to have a positive impact.

Meanwhile, the company's overseas distribution partnership with Warner Brothers International completed its first full year and contributed greatly to 1988 results.

NETWORK TELEVISION

Disney strengthened its position in network television during 1988 with the addition of several new hit programs and commitments from all three networks for a number of future projects.

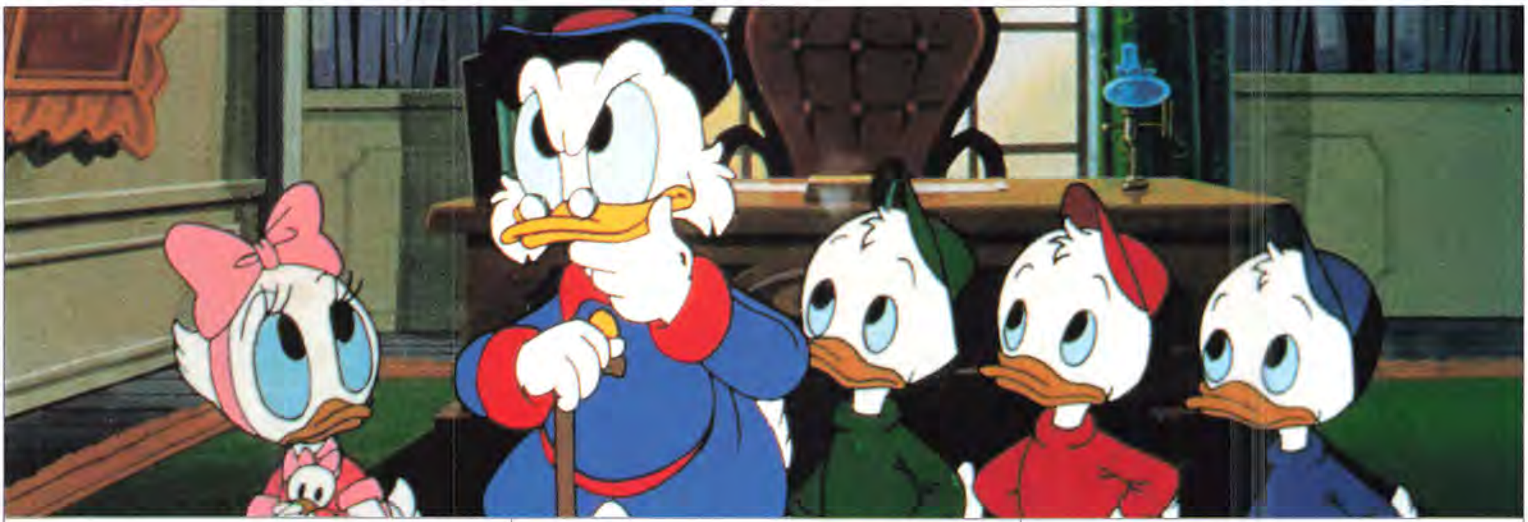
One of the few unqualified hits of the 1988-89 season is Witt/Thomas/Harris' "Empty Nest," a delightful spin-off of the enormously popular "Golden Girls" series. Starring Richard Mulligan as a recent widower who must adjust to his new status with the help of his grown daughters, Kristy McNichol and Dinah Manoff, this series has consistently placed near the top of the ratings charts since its debut. In tandem with its lead-in program, "The Golden Girls," it gives NBC the strongest one-hour comedy block on television.

Critics hailed "The New Adventures of Winnie the Pooh" (opposite page, top) when it joined ABC's Saturday-morning lineup; Tim Dunigan as Davy Crockett in "The Magical World of Disney" on NBC. This page: The syndicated "Live With Regis and Kathie Lee" brings the audience-pleasing New York talk show to a national audience; "Empty Nest" (right) quickly established itself as an NBC hit.

"Our vote for the best of the new series goes to NBC's 'Empty Nest,'" *TV Guide* reported. Said *People* magazine: "Just crazy enough. Just cozy enough. Just right."

Meanwhile, "The Golden Girls" are back for their fourth laugh-filled season on NBC, having recently added a 10th Emmy to their collection. This consistently well-written comedy continues near the top of the charts. The producing/writing team responsible for this show–Nathan, Fanaro, Grossman and Speer–recently signed a deal with the studio to create a new series in 1989.

Elsewhere on the Saturday schedule, Disney has scored a ratings success



with the network debut of its animated series "The New Adventures of Winnie the Pooh" on ABC. This latest addition to the Saturday morning lineup has won critical acclaim for its artistic excellence and imaginative story content.

In recent ratings, "Winnie the Pooh" gave ABC a 40 percent increase in its time spot over its programming from last year. Based on this initial success, 26 additional episodes are already on order.

"The artists preserve the personalities of A.A. Milne's beloved characters," Charles Solomon wrote in the *Los Angeles Times.* "Winnie the Pooh is not only the classiest new show of the season but also one of the best-looking series ever animated for television." Another Disney animated series, "The Adventures of the Gummi Bears," continues to be one of the most popular programs in NBC's Saturday morning lineup, where it has aired since 1985.

"The Magical World of Disney," heir to the company's 30-year Sunday night TV legacy, changed channels to top-rated NBC this season, taking on a new format in the process. The distinguished TV writer/producer Bill Blinn oversees this time slot. His writing credits include "Brian's Song" (which earned him an Emmy award) and "Roots: Part II." As a producer and/or creator, he was also responsible for "Starsky & Hutch," "The Rookies," "Eight Is Enough" and "Roots" (the first 12-hour miniseries).

Among the recurring program segments planned for "The Magical World of Disney" are new versions of the popular Davy Crockett adventures

"DuckTales" (top) earned even stronger ratings in its second season of syndication; "The Golden Girls" remains one of TV's top comedy series. Opposite page: "A Friendship in Vienna" (top) and "Goodbye, Miss 4th of July" (bottom), both made-for-TV movies, earned acclaim for The Disney Channel; Hayley Mills stars in "Good Morning, Miss Bliss," produced for the channel by NBC.

(with Tim Dunigan in the lead role), a series inspired by the hit Disney film "The Absent-Minded Professor," starring Harry Anderson, and an unusual adventure program called "Mountainman" that pits an Alaskan outdoorsman against the high-rise hustle and hassle of the big city.

Rounding out the programming will be made-for-TV movies and specials celebrating the openings of the Disney-MGM Studio Theme Park and Typhoon Lagoon. Prominent among the former is "Parent Trap III," starring Hayley Mills in a romantic comedy based on the 1961 Disney feature.

Disney's profile on network television will grow even larger in the coming year. The studio has more than 15 projects in advanced scripting and development, including several series resulting from Disney's exclusive arrangement with "L.A. Law" co-creator Terry Louise Fisher.

SYNDICATION

Buena Vista Television continued to emerge as a major supplier of syndicated product throughout 1988 with a variety of popular programming. The most recent addition to the mix–a live one-hour daily strip hosted by Regis Philbin and Kathie Lee Gifford–premiered in the fall and showed early signs of becoming a national hit.

Among the current Buena Vista Television successes is "Win, Lose or Draw," a fast-paced half-hour hosted by Bert Convy, which became the top new show introduced last season and the third most popular game show on television (behind "Jeopardy" and "Wheel of Fortune").

Seen in 180 TV markets through-

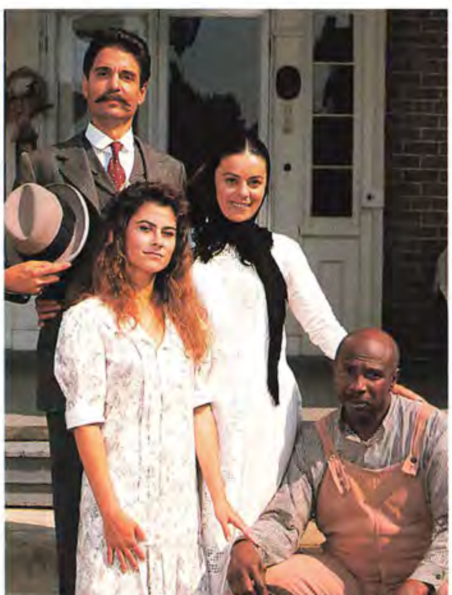
out the United States, where it consistently placed among the top 10 syndicated programs last year, the show is expected to climb in the ratings because of improved scheduling. The network version of "Win, Lose or Draw," hosted by Vicki Lawrence, continues every weekday morning on NBC.

Another great success story is "DuckTales," which has consistently been the top-rated kids' show in syndication since its debut last season. With its imaginative storylines, entertaining characters and expert animation, this series has achieved strong national ratings–and more than a third of its viewers are adults.

Now seen in 95 percent of the country, "DuckTales" is increasing its ratings and popularity in its second season. Thirty new episodes and several long-form specials have been added to the original 65 half hours for the new season.

"Siskel & Ebert," now in its third season for Buena Vista Television, continues to be the highest-rated movie-review program on television and has expanded to include a number of yearly specials. Other continuing hits for the division include four movie packages consisting of Disney and Touchstone favorites and a 178-hour collection of classic "Wonderful World of Disney" episodes.

Fall 1989 will see the debut of "Chip 'n' Dale's Rescue Rangers," a daily animated strip. A two-hour special will introduce the show, to be followed by 65 half-hour adventures. With "DuckTales," this series is expected to form a one-hour block of unbeatable afternoon entertainment.



The big news in syndication for 1990 is the first off-network availability of "The Golden Girls." With five seasons of laugh-filled episodes to draw from, Buena Vista Television expects that syndicating this enormously popular series will be a "golden" opportunity.

The Walt Disney Studios found important new opportunities in foreign television sales as that market continued to mature. Recent developments overseas have included the privatization of the French networks, resulting in the emergence of new commercial television channels and increased demand for product.

With the worldwide popularity of Disney and Touchstone feature films as well as animated series such as "DuckTales," foreign sales rose dramatically in 1988. Europe was dominant, with 64 percent of the total. The Far East and Australia contributed significantly. Sales are expected to increase substantially in the coming year.

To take advantage of changing market conditions and local programming opportunities, Disney created a London-based division to co-produce programming tailored to individual countries, using local hosts and talent. Such co-productions are currently being explored in England, France and Japan.

JEFFREY KATZENBERG
Chairman
The Walt Disney Studios

RICHARD H. FRANK
President
The Walt Disney Studios

FILMED ENTERTAINMENT

(In millions)	1988	Change	1987	Change	1986
Revenues	**$1,149.2**	**+31%**	$875.6	+71%	$511.7
Operating income	**186.3**	**+43%**	130.6	+153%	51.6
Operating margin	**16%**		15%		10%

Revenues and operating income in 1988 reflected the continued growth of the theatrical division, which benefited from the outstanding performance of Three Men and a Baby, Who Framed Roger Rabbit, *and* Good Morning, Vietnam. *These three films were among the industry's top four grossing films of 1988.*

In addition, outstanding domestic and foreign home video sales and an increase in the subscriber base at The Disney Channel benefited 1988 results. The home video improvement resulted from a successful 1987 Christmas promotion, strong sales of Good Morning, Vietnam, Stakeout *and* Outrageous Fortune, *and more titles in home video release. Current year results were offset by the lower network and syndicated television revenues as compared to the prior year and the impact of unsuccessful theatrical releases in the fourth quarter.*

Revenues and operating income were higher in 1987 compared to 1986 due primarily to successful domestic and international theatrical releases, higher television revenues generated primarily from the syndication of two major packages of Disney feature films and television programming, greater home video sales and improved results for The Disney Channel.

Potential financial risk is reduced and diversified through Silver Screen Partners' investments in the company's films. During 1988, Silver Screen III and IV funded approximately $140 million and are expected to fund over $200 million in 1989.

THE DISNEY CHANNEL

The Disney Channel celebrated its fifth anniversary in 1988 with record subscribership (now over four million), its most ambitious schedule of original family programming and a major expansion into new markets both at home and abroad.

As the year came to a close, a landmark joint venture was completed with Rupert Murdoch's News International that will make The Disney Channel available for the first time via satellite to television viewers in Great Britain and Ireland (through Mr. Murdoch's Sky Television). This marks the first time The Disney Channel will be available to viewers outside North America. The pay service will air 18 hours each day in the British Isles when it begins operation next year.

On the home front, the channel initiated aggressive marketing strategies. During the most recent free preview weekend, more than 26 million homes had an opportunity to view the channel, eliciting a dramatic phone response from potential subscribers. The channel also entered the hotel market in April and began offering the service directly to satellite dish owners–with excellent results.

In programming, the channel placed a greater emphasis than ever before on original quality entertainment. Among 1988's highlights was the made-for-cable movie "A Friendship in Vienna," starring Jane Alexander and Ed Asner. The *Los Angeles Times* called it "a rare pleasure–a family film of maturity and substance."

A new comedy series, which made its debut in November, represented a programming landmark for the channel. "Good Morning, Miss Bliss," starring Hayley Mills as a junior high school teacher, marks the first time a major network (NBC) has produced a series exclusively for a cable outlet.

Home Video's releases of "Three Men and a Baby" (above) and "Good Morning, Vietnam" (next page) were instant winners; Anthony Hopkins (opposite page, top) stars in "Great Expectations," a $6-million Disney Channel miniseries to air in 1989.

The past season also included award-winning documentaries, variety specials and concerts, and classic Hollywood movies.

The Disney Channel has set a winter debut for its all-new daily version of "The Mickey Mouse Club," originating from the Disney-MGM Studios in Florida. With a dynamic cast of talented young performers and a contemporary format designed to both educate and entertain, the show is expected to make a lasting impact on children's programming.

Another highlight of the upcoming season will be the world premiere of the new animated series "Chip 'n' Dale's Rescue Rangers" (prior to its syndication debut later in 1989).

Special rebroadcasts of two Disney animated favorites–"Dumbo" and "The Sword in the Stone"–are also scheduled for the new year.

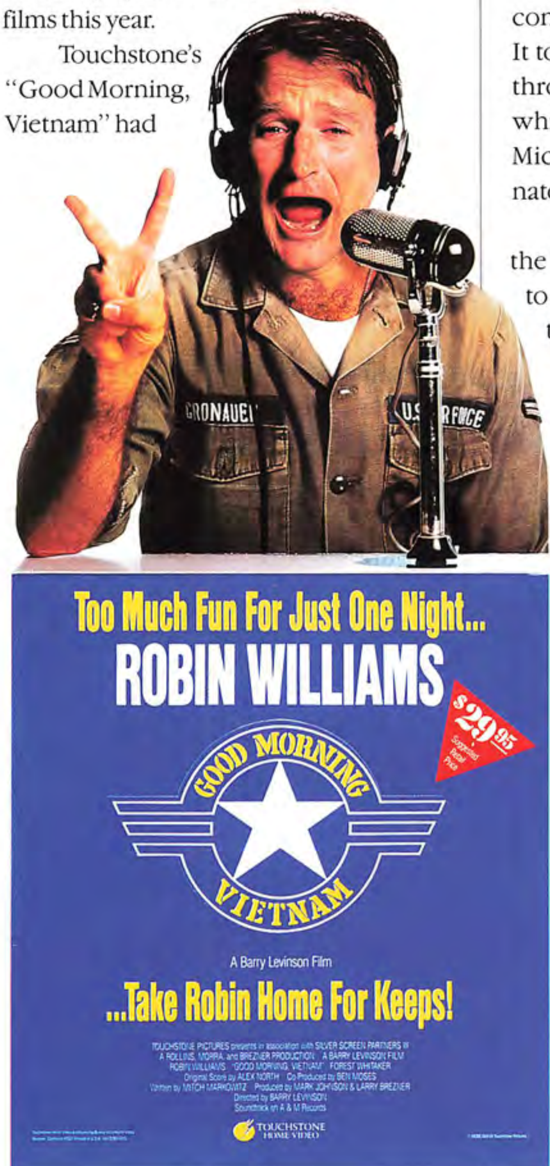
HOME VIDEO

Buena Vista Home Video was poised to become number one in this explosive, $6-billion marketplace as the holiday gift-giving season approached. The division, which distributes Disney and Touchstone products, ranked second among industry marketers in 1987. As recently as 1985 it was a distant sixth.

VCR's are now installed in nearly

two out of every three American homes, and Buena Vista found a ready audience for its highly successful films this year.

Touchstone's "Good Morning, Vietnam" had



sold 2.2 million units by early December, propelled by a $29.95 "sell-through" price that encouraged consumers to buy rather than rent. It topped the sales and rental charts throughout August and September while a special video commemorating Mickey Mouse's 60th birthday dominated the KidVid charts.

As a result, Buena Vista became the first company in industry history to top all three charts at the same time, a distinction it repeated several weeks later.

Walt Disney Home Video maintained its commanding position in kids' video, averaging 20 of the top 25 spots in the weekly ratings.

In the fall, "Cinderella" became the division's biggest success story. Disney's venerable classic, making its home video debut and priced at $26.95, pre-sold a remarkable 4.8 million units before its Oct. 4 release– the largest advance sale ever for Disney and second only to "E.T." in industry history.

The "Bring Home the Classics" Christmas campaign, including "Cinderella" and 35 other titles, received extensive tie-in support from Procter & Gamble, McDonald's and Coca-Cola. The 45-second "Classic Christmas" commercial with Coke not only celebrated the gentle spirit of the holiday season but also employed the state-of-the-art techniques pioneered in "Who Framed Roger Rabbit."

"Three Men and a Baby" became the best-selling rental title in industry history even before its official release date in November. Despite its higher $89.95 retail price, the popular video pre-booked more than 535,000 units, surpassing "Beverly Hills Cop II" as the industry leader for a rental title.

In foreign markets, demand for Disney/Touchstone video products also increased dramatically, and a subsidiary of the division was established in the United Kingdom. By year's end, Buena Vista Home Video distributed product in 33 countries, with Hong Kong, Brazil and Thailand representing the most recent additions. Turkey and South Korea are among locations to be added in 1989.

During the Christmas season, Disney mounted sell-through campaigns in 10 international markets. In Japan, McDonald's became the first overseas tie-in partner to support the current titles in the Disney classic collection, headlined by "Pinocchio." France's major offering was "The Sword in the Stone," and Germany's featured release was "Robin Hood."

DISNEY CONSUMER PRODUCTS

The enduring power of Disney's characters to charm and delight was demonstrated again in 1988, the best year ever for Disney Consumer Products. In the United States and around the world, Disney products continued far in the lead among licensed character properties, thanks in part to division-wide participation in Mickey's 60th birthday and the dazzling arrival of Roger Rabbit.

In the United States, licensing revenues doubled. Disney now represents 12 percent of all licensed character merchandise in the U.S. Worldwide, the characters come to life in some 16,000 products covered by more than 3,000 licenses.

Thirteen Disney Stores now deliver the magic in select malls from California to Florida to Massachusetts. More stores will open in 1989.

Expanded direct marketing activities augmented the year's success. A revitalized Disney Catalog was sent to more than eight million homes during the year. The purchase of Childcraft Education Corp. in May helped establish Disney as a leader among direct marketers of children's products.

Internationally, the division reorganized its 27 offices into three broad regions–Europe/Middle East, Asia/Pacific and Latin America–and strengthened local leadership. The result has been improved efficiency and focus among offices and licensees.

In all markets, Disney continued to actively protect its copyrights and trademarks from unauthorized use. In the last two years in the U.S., the company has filed 17 suits in seven states and the District of Columbia that name more than 700 defendants. Outside the U.S., Disney has brought 78 different actions to enforce its rights.

Meantime, Disney continues negotiations with several foreign governments, in association with U.S. trade and commerce agencies, making stronger copyright protection a condition of further business activity in those countries.

Three factors have contributed to the success of Disney products in the U.S.: the company's aggressive advertising and promotion of its films and parks, the continued buying power of the baby boom generation raised on Mickey and the enhancement of the Disney character franchise with more contemporary designs and better-quality products.

Mickey and Donald as cast resin figurines, bottom; top, Roger Rabbit and Benny the Cab, new stars seen as plush dolls from Applause.

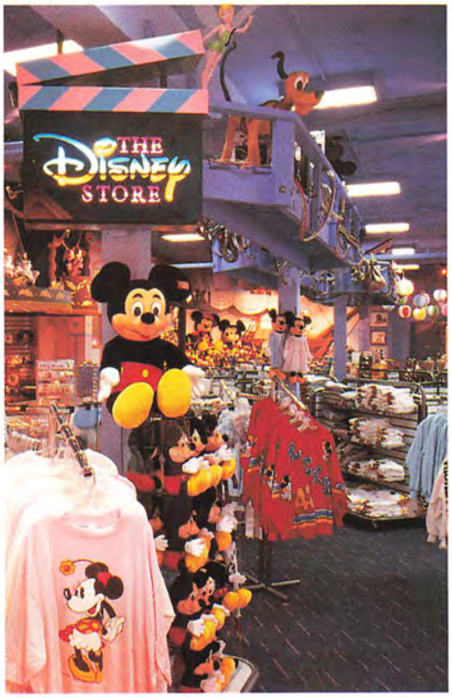
Among the many success stories in 1988, fashion licensee J.G. Hook, creator of the Mickey & Co. line of designer clothing, reported its best year ever for Disney merchandise. So did Allison Manufacturing, with bold new graphics on T-shirts, sweatshirts and sleepwear.

Applause, Inc., doubled sales of its standard character dolls and novelty items and successfully launched a new line of DuckTales products. Disney Pops from Gold Bond Ice Cream became the top performer in the entire frozen novelty category.

Efforts were intensified to increase awareness of the Disney Babies brand. Its characters now provide a coordinated look for infant products from 40 manufacturers, ranging from Graco strollers and Dundee Mills bedding to gifts, accessories and baby clothes.

Beginning in March, Disney Babies will appear on the packaging and waistbands of millions of Pampers diapers. Tie-in promotions and trade and consumer advertising will enhance sales and build consumer loyalty for all products covered by the brand.

Clockwise at left: Ceramic Mickey lamp by Imperial Lighting, eight-inch Baby Mickey doll by Applause, Shape-Sorter Fire Truck by Mattel and Scrooge McDuck slippers from Carousel by Guy. Below, beaded gloves by Wendy Gell. Bottom, 10 Disney Stores opened during 1988.



In another brand-development program–Disney Preschool by Mattel–a line of 30 infant and preschool toys was introduced to excellent consumer reception early in the year. A second

generation will be presented at toy fairs next spring.

Licensing celebrated Mickey's birthday all year with special products and promotions. Lorus and Seiko had great success with new Mickey Mouse watches, one a replica of the 1933 Ingersoll classic. Gerald Genta of New York introduced the most expensive Disney items ever – jewel-studded Mickey and Minnie gold watches priced from $6,000 to $36,000.

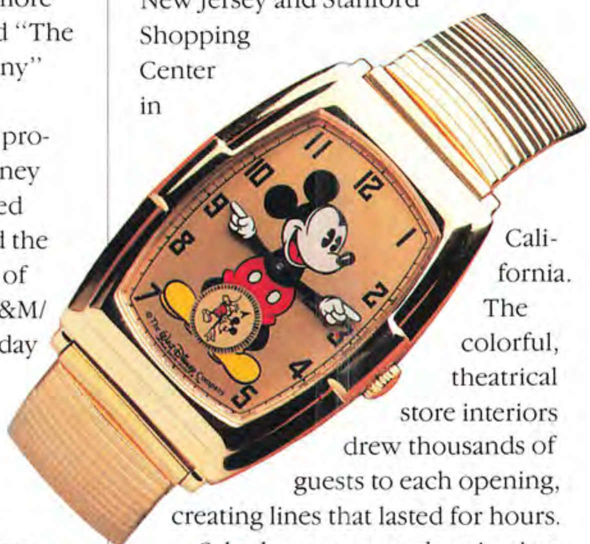
A major merchandising theme for 1989 – "Hollywood Mickey," supporting the Disney-MGM Studio Theme Park – was unveiled for domestic licensees and major retailers at Walt Disney World in September.

The merchandise program for "Who Framed Roger Rabbit" was the most successful for any film at release. By Christmas, almost 50 licensees were offering more than 600 products, with still others being added overseas. The success of "Roger" has sparked more aggressive merchandising behind "The Golden Girls," "Oliver & Company" and other film projects.

Sales Promotion developed programs to support a variety of Disney activities, including the syndicated "DuckTales" animated series and the launch of "The New Adventures of Winnie the Pooh" on ABC-TV. M&M/Mars saluted Mickey's 60th birthday with a sweepstakes offer on 2.5 billion candy wrappers.

Disney created a character named Dugout in conjunction with Little League Baseball. The mascot will be a featured performer during Little League's 50th anniversary next summer.

The first Disney Store outside California opened in June at Bridgewater Commons in New Jersey. Nine others followed coast to coast at such prestigious malls as Tyson's Corner Center in Virginia, Paramus Park in New Jersey and Stanford Shopping Center in California. The colorful, theatrical store interiors drew thousands of guests to each opening, creating lines that lasted for hours.



Sales have surpassed projections and are often four times national averages for retail sales per square foot, eliciting bids from other prestigious malls around the country.

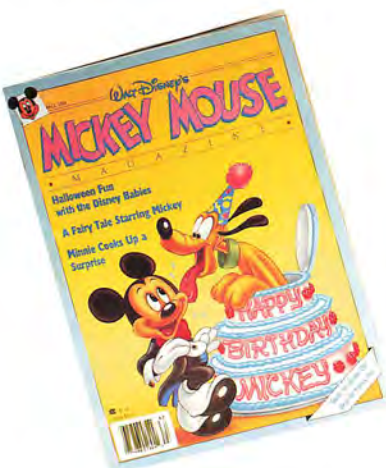
The stores also promote film releases, sell tickets to the parks and showcase activities of the entire company via television monitors. Telephones enable guests to place orders with The Disney Channel and Disney Catalog.

During the opening of the fifth Disney Store in Torrance, Calif., Brandace Berger, vice president of

marketing for the Del Amo Fashion Center, said: "Retailing is an art, but not all retailers are artists. The Disney folk have produced art in the form of a store."

Expansion will continue during 1989, with 100 stores targeted by 1992. Outlets overseas are under consideration.

An expanded direct marketing program with a revised Disney Catalog promoted awareness of the stores and Disney merchandise. The 32-page catalog offered more than 230 products, from baby clothes to videos. Six million copies were mailed in the fall alone.



Left page: "Mickey's Birthday Express" from Pride Lines; Seiko revival of classic Mickey watch; Three Little Pigs in "Mickey's Diamond Jubilee" ice show; craftsman at Childcraft, Disney's first manufacturing operation. Above, Publications' Mickey Mouse magazine and Walt Disney Records' "Oliver & Company" soundtrack; right, Minnie visits NASA in Educational Productions' "Minnie's Science Field Trips."

The addition of Childcraft will

dramatically increase Disney's direct marketing revenues. Disney now owns three of the top half-dozen catalogs offering products for children–Childcraft, Just for Kids! and the Disney Catalog. All three share a reputation for quality.

Childcraft also adds manufacturing to Disney's activities for the first time. A plant in Lancaster, Pa., produces wooden play equipment and schoolroom furniture.

Publications revenues rose 43 percent. Fifty million Disney books were sold in the U.S., in effect making the company one of the nation's major publishers.

Two new book sets were offered via direct mail–"Rhyming Readers," a 30-volume set from Grolier, and Disney Babies, 24 volumes from Field Publications that generated an especially high rate of response.

Western Publishing released another early-learning program entitled "Learn With Mickey"–workbooks, readers, activity books and games. Twelve "Roger Rabbit" titles by Western sold six million copies.

Sales of Twin Books' Disney Animated Classics series climbed to five million copies in 1988 after two years in release. Eleven new titles, including "Oliver & Company," began shipment in the fall.

The Mickey Mouse Magazine launched in 1987 continued to do well. It was followed by a DuckTales title. Combined newsstand and subscription sales passed one million.

Disney and Bantam Books agreed

at year end to offer a third series of books through supermarkets beginning in 1991. Almost 50 million are in print for the first two series, the "Fun

BARTON K. BOYD
President
Disney Consumer Products

CONSUMER PRODUCTS

(In millions)	1988	Change	1987	Change	1986
Revenues	**$247.0**	**+48%**	$167.0	+28%	$130.2
Operating income	**133.7**	**+37%**	97.3	+34%	72.4
Operating margin	**54%**		58%		56%

Revenues and operating income increased in 1988 and 1987 due to greater demand for Disney licensed products, primarily in apparel, toy and publication categories. Foreign revenue and operating income were significantly higher in both 1988 and 1987 due to increases in licensing and publication activities and to the appreciation of foreign currencies. Revenues and income have benefited each year since 1985 from the increasing value of major foreign currencies in relation to the U.S. dollar.

to Learn" and "Fun to Read" libraries.

After more than 30 years as Disneyland/Vista, Disney's record company changed its name to Walt Disney Records and unveiled two new labels. Touchstone Records made its debut with the soundtrack from "Roger Rabbit." The "Oliver & Company" track was released under a new Walt Disney Records label.

In April, the record company received seven awards from the Recording Industry Association of America, including platinum albums (one million sold) for "Mousercise" and "Disney's Christmas Favorites" and platinum single awards (two million sold) for the "Bambi" and "Snow White and the Seven Dwarfs" Read-Alongs. The company has now won 51 such awards, far more than any other children's music company.

Entertainment computer software is seen as an important growth area. The "Who Framed Roger Rabbit" game released at Christmas quickly led to rave reviews and strong sales. Other recent titles include "Mickey Mouse-capades" from CAPCOM for the nine million Nintendo game machines in the home market and "Win, Lose or Draw" from HiTech Expressions.

Disney Educational Productions released 21 films and videos and 35 filmstrips, again winning a series of awards for its contributions to education.

Figment the whimsical dragon from Kodak's Imagination pavilion at Epcot Center starred in nine films in a language arts series that emphasizes imagination, creativity and the love of books and words.

Mickey and Minnie each hosted a "Field Trips" series guiding youngsters through a police station, fire department, hospital, the San Diego Zoo, Johnson Space Center and Epcot's Living Seas pavilion. Mickey demonstrated the importance of buckling up in his new film, "Mickey Mouse: Safety Belt Expert."

Internationally, Walt Disney Italy took over publication of *Topolino*, the weekly Mickey Mouse comics magazine. Improved quality and distribution led to a circulation increase of 30 percent.

The first official Disney books saw print in the People's Republic of China. Eighteen titles sold 913,000 copies during the year. A comics magazine will be tested soon.

"Totally Minnie" on cassette became the first Disney-released music in China. The same songs were presented in English on one side, in Mandarin on the other.

For the October festival of classic Disney films in Russia, Publications and Disney West Germany developed a comics magazine called "Mickey and Mischa." If copyright issues can be resolved, it will become a regular publication, a significant opening for future business there.

In Japan, International Resources K.K. had a record year. A Disney English-language teaching course sold 5,000 sets at $2,600 each.

Editora Abril and Disney signed a joint venture agreement for books and a comics magazine in Spain. Abril already has been licensed in Brazil and Portugal.

Around the world, the Ringling Brothers-produced ice spectaculars brought Disney live entertainment to millions for the first time. With the debut in November of "Mickey's Diamond Jubilee," three shows are touring in the United States and two others are appearing overseas. Discussions are under way to take a show to the Soviet Union.

MARTIN A. SKLAR
President
Walt Disney Imagineering

For 36 years, Walt Disney Imagineering has provided the flights of fancy that become attractions at Disney theme parks. President Martin A. Sklar's division is currently conjuring up projects worth more than $2 billion. Clockwise, the Pleasure Island nighttime entertainment district, Typhoon Lagoon water park and Wonders of Life pavilion, all at Walt Disney World; left, an Imagineer at work on model of Euro Disneyland's Phantom Manor.

Under President Peter S. Rummell, Disney Development Company works with the corporation's other divisions in developing and managing construction projects from France to California, reporting to Chief Financial Officer Gary L. Wilson. Hotels at Walt Disney World are a top priority. Clockwise: the completed first section of the Caribbean Beach Resort; early construction on the Walt Disney Dolphin and Walt Disney Swan luxury hotels; model of administration office building at Walt Disney World; model of Disney Yacht Club and Disney Beach Club with lighthouse in foreground.

PETER S. RUMMELL
President
Disney Development Company

ROBERT J. FITZPATRICK
President
Euro Disneyland

Euro Disneyland President Robert J. Fitzpatrick unveiled a working model of the new theme park early in December as work began at the 4,800-acre site near Paris. Disney expects the park to attract at least 11 million guests annually when it opens in 1992. Above, artists at work on a portion of the detailed model. Below, clockwise from right, renderings of Fantasyland entrance, Adventure Isle, Frontierland's Thunder Mountain.

FINANCIAL REVIEW

(In millions, except per share data)

Financial Objectives

The Walt Disney Company's economic goal is to maximize stockholders' wealth by meeting the following objectives.

- Increase earnings per share (EPS) at 20% annually over any five year period.
- Maintain high capital productivity with 20% return on equity (ROE) through profitable reinvestment of cash flows.

Achievement of these objectives has created dramatic value increases for the Company's stockholders. The market value of Disney's equity increased from $2 billion in 1984 to $8.6 billion in 1988, a 330% rise in the past four years.

- EPS from continuing operations rose 33% in 1988 and increased an average of 69% annually during the past four years.
- ROE was 25% in 1988 compared to 8% in 1984.

Earnings and ROE performance place the Company among the top of the Standard & Poor's 500 firms, as shown on the charts below.

The Company generates cash flow substantially in excess of earnings and capital investments. The table below shows that cash flow has averaged 141% higher than accounting earnings over the past four years. Cash flow (even excluding advance royalty payments) has exceeded the Company's steadily increasing capital investment program by an average of over $200 million per year over the last four years.

Year	Net Income	Cash Flow	Capital Investment
1985	$173.5	$ 518.8	$ 329.7
1986	247.3	668.4	377.8
1987	444.7	830.6	458.4
1988	522.0	1,075.4	1,043.1

Unused debt capacity has increased to approximately $3 billion, as borrowings have fallen to 16% of total capital. Strong earnings before interest and taxes increased the coverage of interest expense to 23 times in 1988 compared to less than one in 1984. The combination of high cash flows in excess of investment needs and substantial excess debt capacity provides the Company the financial resources to expand and provide earnings growth into the 1990's.

Expansion by internal development and acquisition is a major contributor to earnings growth. New investments must be consistent with our strategic plan and meet our rigorous financial return criteria. Major expansion projects under development follow.

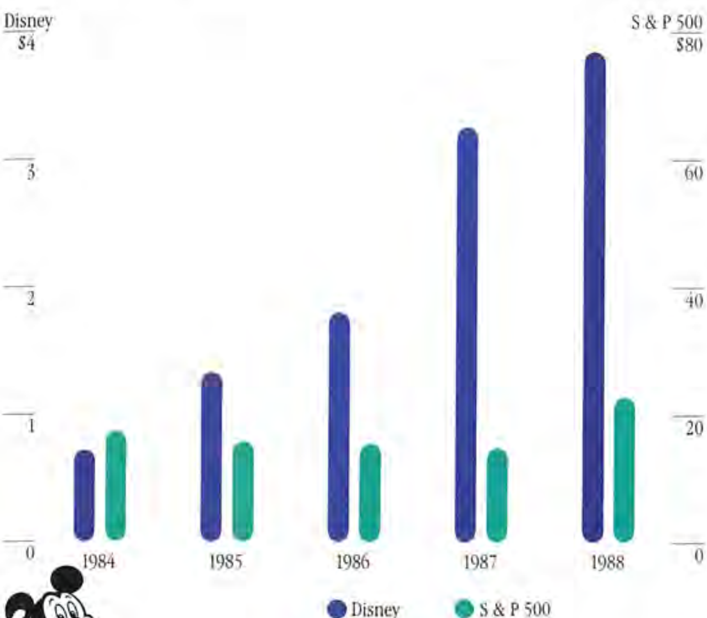
- Disney-MGM Studio Theme Park
- Euro Disneyland

	Rooms
■ Walt Disney World hotel expansion	
— Caribbean Beach Resort	2,100
— Resort and convention hotels	4,500
— Moderately priced hotels	3,000
	9,600
■ Euro Disneyland hotels	5,200
	14,800

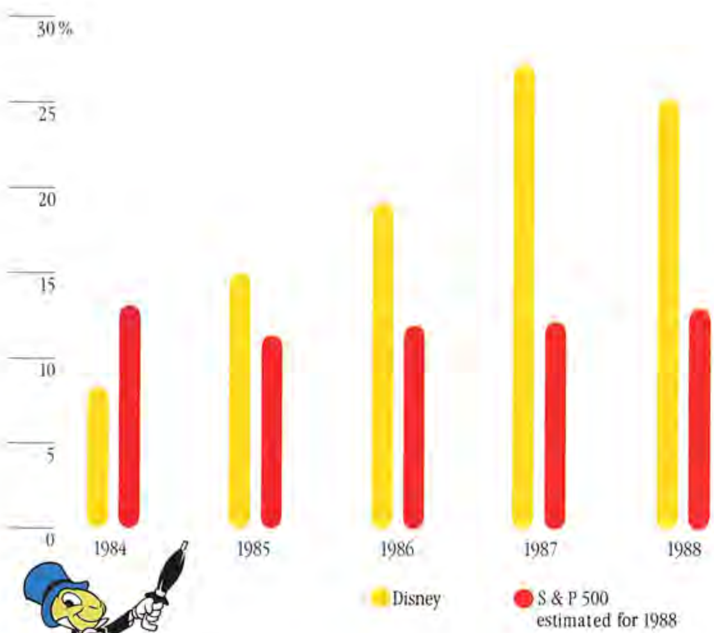
- KHJ, Los Angeles television station
- The Disney Stores
- Sky Channel, United Kingdom
- Tokyo Disneyland second gate

New projects under construction or development, combined with the ability to increase earnings from existing assets, principally through pricing flexibility at the parks, provide a high probability of the Company achieving its earnings growth goals into the 1990's.

EARNINGS PER SHARE



RETURN ON EQUITY



FINANCIAL REVIEW

Operations

Revenues and Earnings
In 1988, the Company generated record-level revenues and net income. Revenues exceeded $3.4 billion representing a 20% increase over 1987. The compounded annual growth rate for revenues for the last five years was 21%.

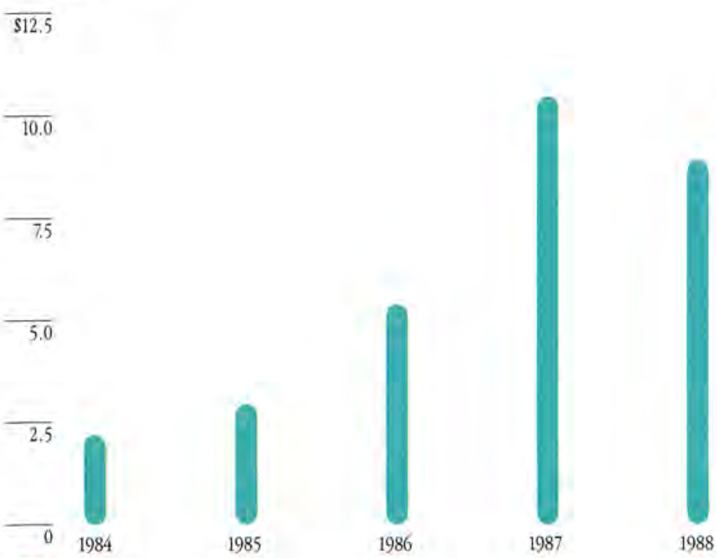
	1988	Change	1987	Change	1986
Revenues	**$3,438.2**	**+20%**	$2,876.8	+33%	$2,165.8
Operating income	**884.8**	**+14%**	776.8	+47%	527.7
Operating margin	**26%**		27%		24%
Income from continuing operations	**522.0**	**+33%**	392.3	+84%	213.2
Per share	**3.80**		2.85		1.57

Each of the Company's three operating segments contributed to the record performance in 1988. The filmed entertainment group recorded a 43% increase in operating income due to exceptional theatrical box office and home video release successes. Consumer products operating income increased 37% driven by strong demand for Disney licensed product. Theme parks and resorts results were up 3% reflecting higher per capita guest spending partially offset by lower attendance levels as compared to the record levels of the prior year.

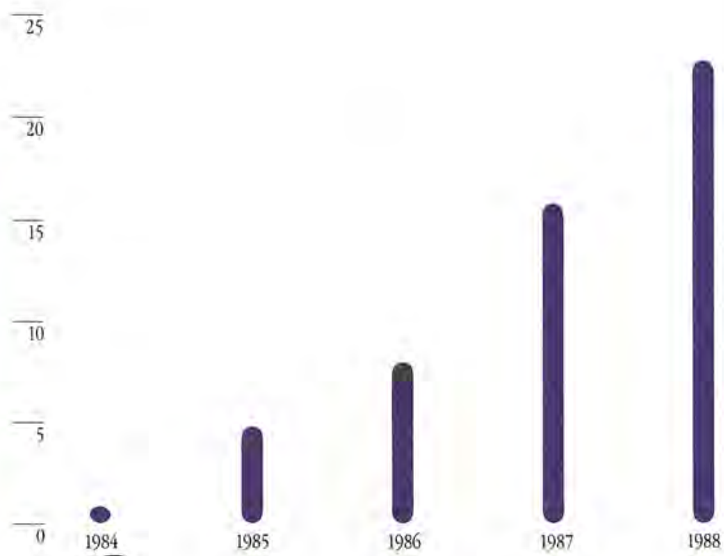
Operating margins continue to remain strong as compared to the 20% margin in 1985. Management continues in its efforts to control costs and increase revenues with creative marketing and pricing programs.

Operating results and management's financial review of operations by business segment are discussed in the forepart of this report.

EQUITY MARKET VALUE
(In billions)



INTEREST COVERAGE RATIO



Corporate Expenses (Income)

	1988	Change	1987	Change	1986
General and administrative	**$96.0**	**+37%**	$70.3	+7%	$66.0
Percent of revenues	**2.8%**		2.4%		3.0%

General and administrative expenses increased in 1988 due primarily to additional costs incurred to support the Company's increased operations. In 1987, general and administrative expenses increased partly as a result of an increase in the market price of the Company's stock, which resulted in higher compensation expense relating to stock appreciation rights and incentive programs.

	1988	Change	1987	Change	1986
Interest expense	**$5.8**	**−80%**	$29.1	−34%	$44.1
Average year end interest rate	**8.4%**		6.8%		8.8%

Interest expense has declined over the past three years due to lower average borrowings and an increase in capitalized interest due to greater investing activities.

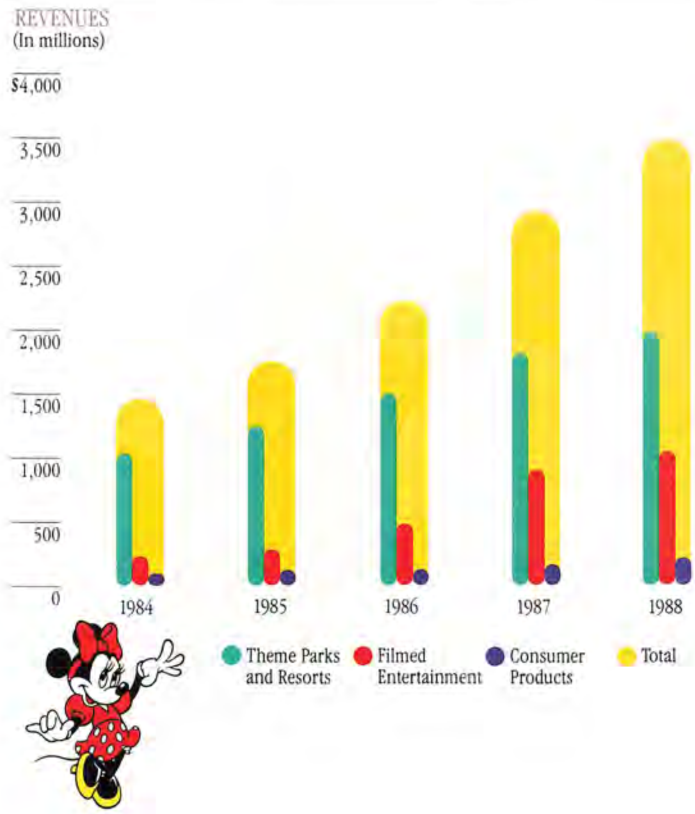
	1988	Change	1987	Change	1986
Investment and interest income	**$58.9**	**+20%**	$49.0	–	$4.6

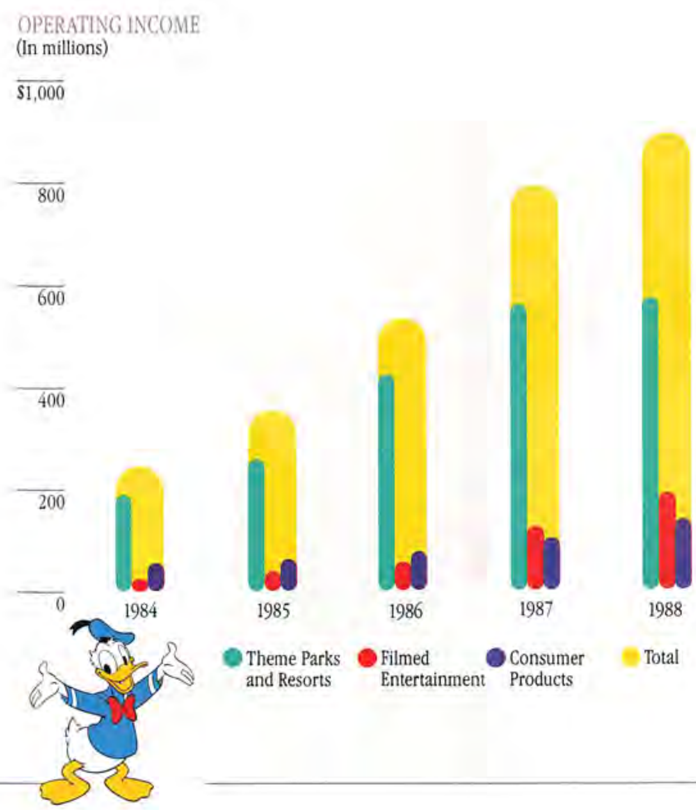
The increase in investment and interest income over the past two years reflects the income generated on the Company's higher cash and marketable securities balances.

Income Taxes

	1988	Change	1987	Change	1986
Income taxes	**$319.9**	**−4%**	$334.1	+60%	$209.0
Effective income tax rate	**38.0%**		46.0%		49.5%

The decrease in the Company's effective tax rate over the last two years reflects the decline in the Federal statutory tax rate from 46% in 1986 to 34% in 1988.





CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share data)

Year ended September 30	**1988**	1987	1986
Revenues			
Theme parks and resorts	**$2,042.0**	$1,834.2	$1,523.9
Filmed entertainment	**1,149.2**	875.6	511.7
Consumer products	**247.0**	167.0	130.2
	3,438.2	2,876.8	2,165.8
Costs and Expenses			
Theme parks and resorts	**1,477.2**	1,285.3	1,120.2
Filmed entertainment	**962.9**	745.0	460.1
Consumer products	**113.3**	69.7	57.8
	2,553.4	2,100.0	1,638.1
Operating Income			
Theme parks and resorts	**564.8**	548.9	403.7
Filmed entertainment	**186.3**	130.6	51.6
Consumer products	**133.7**	97.3	72.4
	884.8	776.8	527.7
Corporate Expenses (Income)			
General and administrative	**96.0**	70.3	66.0
Interest expense	**5.8**	29.1	44.1
Investment and interest income	**(58.9)**	(49.0)	(4.6)
	42.9	50.4	105.5
Income From Continuing Operations Before Income Taxes	**841.9**	726.4	422.2
Income taxes	**319.9**	334.1	209.0
Income From Continuing Operations	**522.0**	392.3	213.2
Discontinued operations, net		52.4	34.1
Net Income	**$ 522.0**	$ 444.7	$ 247.3
Earnings Per Share			
Continuing operations	**$3.80**	$2.85	$1.57
Discontinued operations		.38	.25
	$3.80	$3.23	$1.82
Average Number of Common and Common Equivalent Shares Outstanding	**137.4**	137.8	135.8

Financial Position

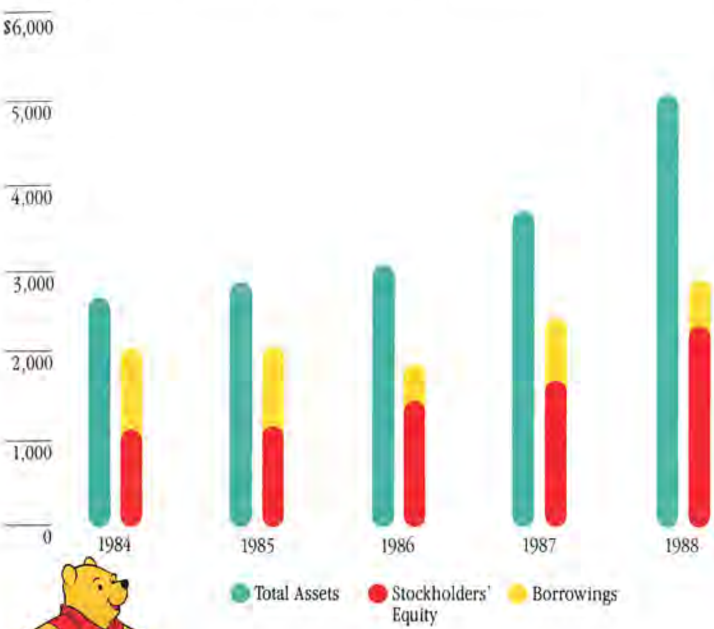
Assets
Maximizing shareholder value through disciplined asset management continues to be a primary corporate goal. Return on assets in 1988 is 12%, up from 6% in 1985. This return remains strong even as total assets increased to $5.1 billion, reflecting a 16% compounded annual growth rate for the last five years.

	1988	**Change**	1987	Change	1986
Total assets	**$5,108.9**	**+34%**	$3,806.3	+22%	$3,121.0
Return on assets	**12%**		13%		8%

The Company received over $1 billion in cash during 1988 from advanced royalties and the collection of notes receivable from the sales of the assets of Arvida.

The increase in total assets reflects strategic investments by the Company in entertainment attractions, Euro Disneyland, Wrather Corporation and Childcraft Education Corp. The Company also invests in network television, first-run syndication and programming for The Disney Channel. Theatrical production costs continue to be funded by Silver Screen Limited Partnerships.

TOTAL ASSETS, STOCKHOLDERS' EQUITY AND BORROWINGS
(In millions)



Liabilities and Stockholders' Equity
Ratio of borrowings to total capital decreased to 16% continuing a decline from the 1985 level of 41%.

	1988	**Change**	1987	Change	1986
Borrowings	**$435.5**	**−25%**	$584.5	+7%	$547.2
Ratio to total capital	**16%**		24%		28%

During the current year, the Company repaid $195 million in outstanding commercial paper and reduced the amounts owed to the Silver Screen II Limited Partnership. These reductions were partially offset by two issues of long term notes aggregating $85 million.

	1988	**Change**	1987	Change	1986
Unearned royalty and other advances	**$823.3**	**–**	$193.2	−4%	$201.0

The increase in unearned royalty and other advances results from a transaction which the Company entered into in April, 1988, which effectively monetized a substantial portion of its future royalties from certain Tokyo Disneyland operations over the next twenty years. The transaction, which resulted in the recording of approximately $594 million to be recognized as earned over the term of the transaction, did not have a significant effect on current year earnings. The transaction ensures that most of the Company's income from Tokyo Disneyland royalty sources for the next twenty years will not be affected by future fluctuations in the yen/dollar exchange rate.

	1988	**Change**	1987	Change	1986
Stockholders' equity	**$2,359.3**	**+28%**	$1,845.4	+30%	$1,418.7
Per share	**17.71**	**+26%**	14.02	+29%	10.86
Return on equity	**25%**		27%		19%

The Company's strong operating results have enabled it to sustain a high return on equity. Since 1984, stockholders' return on equity has increased from 8% to 25%.

Financial Resources and Liquidity
The Company's financial condition remains strong and adequate to meet future financing requirements. In addition to strong cash flow from operations, the Company has sufficient debt capacity to finance its on-going capital expenditure programs as well as to take advantage of internal and external development and acquisition opportunities.

CONSOLIDATED BALANCE SHEET

(In millions)

September 30	1988	1987
Assets		
Cash	**$ 428.0**	$ 344.0
Marketable securities	**668.6**	10.1
Accounts and notes receivable	**437.9**	820.7
Merchandise inventories	**159.9**	122.8
Film production costs	**211.0**	174.8
Entertainment attractions and other property, at cost		
Attractions, buildings and equipment	**3,322.5**	2,794.2
Accumulated depreciation	**(1,065.2)**	(937.6)
	2,257.3	1,856.6
Projects in progress	**511.1**	265.7
Land	**53.3**	25.0
	2,821.7	2,147.3
Other assets	**381.8**	186.6
	$5,108.9	$3,806.3
Liabilities and Stockholders' Equity		
Accounts payable, payroll and other accrued liabilities	**$ 698.7**	$ 464.3
Income taxes payable	**204.3**	122.9
Borrowings	**435.5**	584.5
Unearned royalty and other advances	**823.3**	193.2
Deferred income taxes	**587.8**	596.0
Stockholders' equity		
Preferred shares, $0.10 par		
Authorized–5.0 shares, none issued		
Common shares, $0.10 par		
Authorized–300.0 shares		
Outstanding–133.2 and 131.7	**349.6**	307.2
Retained earnings	**2,009.7**	1,538.2
	2,359.3	1,845.4
	$5,108.9	$3,806.3

Cash Flows

Cash Provided by Continuing Operations
Operating cash flow before unearned royalty advances for 1988 was $1.1 billion, up 29% from 1987 due to greater profitability of all operating divisions.

	1988	**Change**	1987	Change	1986
Cash flow	**$1,075.4**	**+29%**	$830.6	+24%	$668.4
Ratio to borrowings	**211%**		147%		98%

Investing Activities
Investing activities in entertainment attractions and other property rose in 1988 to $595.7 million and are expected to remain at that level over the next year as the Company develops its properties at Walt Disney World and other locations.

	1988	**Change**	1987	Change	1986
Additions to entertainment attractions and other property	**$595.7**	**+113%**	$280.1	+61%	$174.1
Additions to film production costs	**225.7**	**+27%**	178.3	−12%	203.7

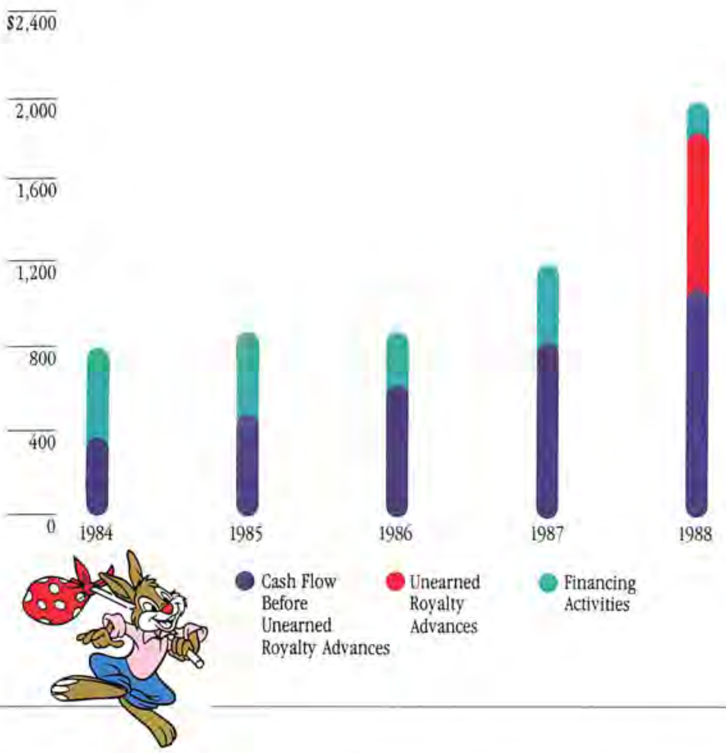
Additions to entertainment attractions and other property have consisted primarily of theme park and resort projects, including the Disney-MGM Studio Theme Park, Pleasure Island, Typhoon Lagoon, Wonders of Life Pavilion, the Grand Floridian Beach Resort and the Caribbean Beach Resort at Walt Disney World, and Splash Mountain at Disneyland. The Grand Floridian Beach Resort opened with 900 rooms in 1988 at a cost of $120 million. The first phase of the $135 million 2,100 room Caribbean Beach Resort opened at the end of 1988 with the final phase scheduled to open in 1989. The Studio Theme Park, a separately gated attraction, is also scheduled to open in 1989 at a cost in excess of $500 million. The Company has recently included additional show enhancements and production facilities to provide increased attendance capacity for the Studio Theme Park project.

The Company plans to finance future theme park and resort attractions, hotels and other development projects with third party participants when the economic terms are attractive. Consistent with that strategy, the Company plans to develop by 1992 Euro Disneyland, located approximately twenty miles east of Paris, France. The Company will be an equity investor and plans to complete the financing for the project in 1989. The Company will receive substantial royalties and management fees as the operator of the facilities.

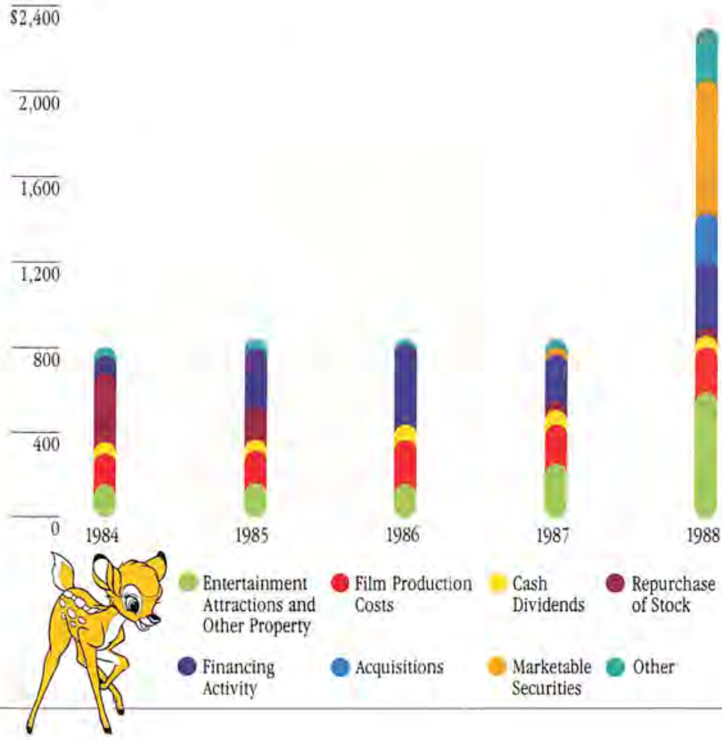
Financing Activities
During the year, the Company issued $85 million in notes at an average interest rate of 14% with varying maturities through 2013. Reduction of borrowings during the year totalled $323 million.

Certain of the Company's debt issuances have been converted to yen obligations at lower average interest rates. The Company has hedged its yen borrowings and a portion of its cumulative yen royalties from certain Japanese royalty sources, thus offsetting the effects of fluctuations in the exchange rate.

PRINCIPAL SOURCES OF CASH
(In millions)



PRINCIPAL USES OF CASH
(In millions)



CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

Year ended September 30	**1988**	1987	1986
*Cash Provided by Continuing Operations Before Income Taxes**	**$1,322.1**	$1,073.4	$714.3
Income taxes paid, net	**(246.7)**	(242.8)	(45.9)
	1,075.4	830.6	668.4
Unearned royalty advances	**722.6**		
Investing Activities			
Entertainment attractions and other property, net	**595.7**	280.1	174.1
Film production costs	**225.7**	178.3	203.7
Acquisitions	**221.7**		
Marketable securities, net	**658.5**	10.1	
Other	**207.9**	38.3	8.5
	1,909.5	506.8	386.3
Financing Activities			
Borrowings	**85.0**	342.4	187.7
Reduction of borrowings	**(322.7)**	(279.7)	(434.2)
Cash dividends	**(50.5)**	(42.0)	(41.0)
Other	**42.4**	24.0	27.5
	(245.8)	44.7	(260.0)
Cash Provided (Required) by Discontinued Segment	**441.3**	(94.5)	9.2
Increase in Cash	**84.0**	274.0	31.3
Cash, Beginning of Year	**344.0**	70.0	38.7
Cash, End of Year	**$ 428.0**	$ 344.0	$ 70.0

*The difference between income from continuing operations before income taxes as shown on the Consolidated Statement of Income and cash provided by continuing operations before income taxes is explained as follows:

Income from continuing operations before income taxes	**$ 841.9**	$ 726.4	$422.2
Charges to income not requiring cash outlays:			
Depreciation	**148.6**	143.1	120.6
Amortization of film production costs	**189.5**	233.6	155.7
Changes in:			
Accounts and notes receivable	**(43.0)**	(145.7)	(86.8)
Merchandise inventories	**(24.7)**	(31.8)	(8.1)
Accounts payable, payroll and other accrued liabilities	**198.7**	156.2	72.2
Unearned royalty and other advances	**36.6**	27.0	27.3
Other	**(25.5)**	(35.4)	11.2
	480.2	347.0	292.1
Cash provided by continuing operations before income taxes	**$1,322.1**	$1,073.4	$714.3

Presentation of the Financial Information

Management's explanation and interpretation of the Company's overall operating results and financial position, together with the basic financial statements, as presented in this section, should be read in conjunction with the entire report. For readers desiring additional detailed financial information, the notes to consolidated financial statements, although an integral part of the basic financial statements, are included in a separate section of this report.

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management has also included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants examine the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the Company has an Audit Review Committee composed of five nonmanagement Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

Registrar and Stock Transfer Agent

Security Pacific National Bank

Stock Exchanges

The Common Stock of the Company is listed for trading on the New York (principal market), Pacific, Swiss and Tokyo Stock Exchanges. Certain debt securities of the Company are listed on the Luxembourg and Swiss Stock Exchanges.

Independent Accountants

Price Waterhouse, Los Angeles

Other Information

A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to Stock Transfer Agent, Security Pacific National Bank, P.O. Box 60070, Terminal Annex, Los Angeles, California 90060-0070.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of The Walt Disney Company

In our opinion, the consolidated balance sheet (page 37) and the related consolidated statements of income (page 35) and of cash flows (page 39) present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Los Angeles, California
November 21, 1988

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(To be read in conjunction with the consolidated financial statements on pages 35, 37 and 39.)

1. Description of the Business and Summary of Significant Accounting Policies

THE WALT DISNEY COMPANY and its subsidiaries (the Company) is a diversified international company engaged in family entertainment with operations in the following business segments:

THEME PARKS AND RESORTS
The Company operates the Disneyland theme park, The Disneyland Hotel and other attractions in California and the Walt Disney World destination resort in Florida. The Walt Disney World complex includes the Magic Kingdom and Epcot Center theme parks, hotels, villas, a shopping village, a conference center, campgrounds, golf courses and other recreational facilities. The Company earns royalties on revenues generated by the Tokyo Disneyland theme park near Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation.

FILMED ENTERTAINMENT
The Company produces and acquires live action motion pictures and produces animated motion pictures for distribution to the theatrical, television and home video markets. The Company also produces original television product for network and first run syndication markets. The Company distributes its filmed product through its own distribution and marketing companies in the United States and through foreign distribution companies throughout the rest of the world. The Company invests in programming for and operates The Disney Channel, a pay television programming service.

CONSUMER PRODUCTS
The Company licenses the name Walt Disney, its characters, its literary properties and its songs and music to various manufacturers, retailers, printers and publishers. The Company produces audio products primarily for the children's market, produces film, audio and computer software products for the educational market, and is a direct mail marketer of educational toys for children. The Company licenses and distributes these products throughout the world. In addition, the Company operates The Disney Stores, which provide retail outlets for the Company's merchandise in selected markets throughout the United States.

The following is a summary of the Company's significant accounting policies:

Principles of Consolidation
The consolidated financial statements include the accounts of The Walt Disney Company and its domestic and foreign subsidiaries, all wholly owned.

1. Description of the Business and Summary of Significant Accounting Policies (continued)

Revenue Recognition
Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited domestically and when revenues are reported from foreign distributors; revenues from television licensing agreements are recorded when the program material is available for telecasting by the licensee and when certain other conditions are met.

Revenues from participants/sponsors at the theme parks are recorded over the period of the applicable agreements commencing with the opening of the attraction.

Cash and Marketable Securities
Cash consists of cash on hand and cash equivalents with original maturities of three months or less. Marketable securities are recorded at cost, which approximates market.

Merchandise Inventories
Costs of merchandise, materials and supplies inventories are generally determined on the moving average basis and the retail method and are stated at the lower of cost or market.

Film Production Costs
Film production costs are amortized and participation expense is accrued in the ratio that the current period's gross revenues bear to estimated total gross revenues from all sources on an individual production basis. Estimates of total gross revenues are reviewed periodically and amortization is adjusted accordingly. Programming costs for The Disney Channel are amortized primarily on a straight-line basis over the estimated useful lives of the programs.

Entertainment Attractions and Other Property
Depreciation is provided principally on the straight-line method using estimated service lives ranging from three to fifty years.

Other Assets
Rights to the name, likeness, and portrait of Walt Disney and goodwill are amortized over forty years.

2. Film Production Costs

(In millions)	1988	1987
Released, less amortization	**$119.1**	$131.6
In process	**91.9**	43.2
	$211.0	$174.8

Based on management's total gross revenue estimates as of September 30, 1988, approximately 84% of unamortized film production costs applicable to released theatrical and television productions will be amortized during the next three years. Television programming included in film production costs totals $124.2 million and $109.2 million at September 30, 1988 and 1987, respectively.

3. Borrowings

(In millions)	1988	1987
14.50% loan due January, 1998	**$ 67.0**	
4.75% Swiss franc bonds due October, 1996	**64.7**	$ 64.7
9.125% ECU notes due March, 1995, principal payable in annual installments of $12.5 commencing March, 1991	**62.4**	62.4
8.75% ECU notes due February, 1994, principal payable in annual installments of $5.4 commencing February, 1990 with balance due at maturity	**54.1**	54.1
14.50% Australian dollar notes due May, 1990	**52.4**	52.4
6.625% Euroyen notes due February, 1996	**49.5**	49.5
9.32% pounds sterling term loan due September, 1996, principal and interest payable in varying semi-annual installments	**27.7**	29.7
Borrowings from limited partnership, net of unamortized discount, due in varying amounts through 1990	**23.0**	59.9
Commercial paper		195.0
Other	**34.7**	16.8
	$435.5	$584.5

Borrowings have the following scheduled maturities (in millions): $11.7 in 1989; $74.1 in 1990; $37.5 in 1991; $21.2 in 1992; $21.6 in 1993 and $269.4 thereafter.

The Company has available through 1990 an unsecured revolving line of bank credit of up to $375 million for general corporate purposes, including the support of commercial paper borrowings. The Company has the option to borrow at various interest rates not to exceed LIBOR.

The Company entered into forward exchange agreements in 1987 which converted the 4.75% Swiss franc bonds and the 14.50% Australian dollar notes into Japanese yen equivalents with effective interest rates of 6.05% and 4.25%, respectively. In addition, the 9.125% and the 8.75% ECU notes were converted into Japanese yen equivalents in 1986 with effective interest rates of 6.565% and 7.065%, respectively. The Company has hedged its yen borrowings and a portion of its cumulative yen royalty receipts from certain Japanese royalty sources, thus offsetting the impact of exchange rate fluctuations.

The Company capitalizes interest on assets constructed for its theme park and resort developments, and on theatrical and television productions in process. In 1988, 1987 and 1986, respectively, total interest costs incurred were $37.5, $52.7 and $67.1 million, of which $31.7, $23.6 and $23.0 million were capitalized.

4. Unearned Royalty and Other Advances

(In millions)	1988	1987
Tokyo Disneyland royalty advances	**$586.8**	
Epcot Center participation fees	**122.4**	$110.6
Other	**114.1**	82.6
	$823.3	$193.2

In April, 1988, the Company received approximately $723 million as a result of a transaction which effectively monetized a substantial portion of its royalties from certain Tokyo Disneyland operations through April, 2008. The Company is required to continue to meet its obligations under its contract with Oriental Land Co., Ltd., the owner and operator of Tokyo Disneyland. A portion of the royalties were included in the Company's hedge program. As a result, $129 million will be recognized against the related hedge losses over the remaining nine year life of the program. Unearned royalties of $594 million have been recorded and will be amortized over the term of the transaction. This amount includes $145 million, which is the maximum the Company may be required to fund under certain circumstances. The Company does not currently anticipate having to fund any significant portion of this amount. All royalties earned in excess of the specified amounts in any year accrue to the benefit of the Company. This transaction ensures that most of the Company's income from Tokyo Disneyland royalty sources for the next twenty years will not be affected by future fluctuations in the yen/dollar exchange rate.

5. Income Taxes

(In millions)	1988	1987	1986
Income Before Income Taxes			
Domestic (including U.S. exports)	**$814.0**	$697.8	$398.7
Discontinued operations		71.3	40.0
Foreign subsidiaries	**27.9**	28.6	23.5
	$841.9	$797.7	$462.2
Provision for Income Taxes			
Current			
Federal	**$250.8**	$212.5	$ 55.6
State	**44.0**	37.1	13.4
Foreign subsidiaries	**12.9**	10.9	8.8
Other foreign	**20.4**	14.2	7.8
	328.1	274.7	85.6
Deferred			
Federal	**(7.5)**	61.4	113.6
State	**(.7)**	16.9	15.7
	(8.2)	78.3	129.3
	$319.9	$353.0	$214.9

Included in provision for income taxes for 1987 and 1986 is a provision for discontinued operations of $18.9 and $5.9 million, respectively. The effect of Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes, on the Company's consolidated financial statements has not been determined.

Components of Provision for Deferred Income Taxes			
Depreciation and amortization	**$18.6**	$15.1	$73.8
Licensing revenues	**11.8**	39.8	16.2
Installment sales	**(35.1)**	40.2	(1.2)
Unusual charges		1.6	34.4
Capitalized interest and property taxes	**(1.8)**	(16.2)	10.0
Other	**(1.7)**	(2.2)	(3.9)
	$ (8.2)	$78.3	$129.3

Reconciliation of Effective Income Tax Rate			
Federal income tax rate	**34.0%**	43.0%	46.0%
State income taxes, net of Federal income tax benefit	**3.4**	3.9	3.4
Investment tax credits, flow through method	**(.1)**	(.7)	(2.3)
Difference in carrying value of certain Arvida assets and liabilities		(1.7)	(1.3)
Other	**.7**	(.3)	.7
	38.0%	44.2%	46.5%

NOTES TO
CONSOLIDATED FINANCIAL STATEMENTS

6. Pension Programs

The Company contributes to various tax-qualified pension plans under union and industry-wide agreements. Contributions are based upon the hours worked or gross wages paid to covered employees. The Company's share of the unfunded liability, if any, related to these multi-employer plans is not determinable.

The Company also maintains tax-qualified pension plans covering most of its domestic salaried and hourly employees not covered by union or industry-wide pension plans and a non-qualified, unfunded key employee retirement plan.

With respect to the defined benefit pension plans, the Company's policy is to fund, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with the requirements of ERISA. Benefits are generally based on years of service and/or compensation.

Effective October 1, 1987, the Company adopted Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions.* This change did not materially affect net income in 1988.

(In millions)	Pension Cost 1988
Service cost of current period	$21.1
Interest cost on projected benefit obligations	14.0
Actual loss on plan assets	7.5
Net amortization and deferral	(19.7)
Net pension cost	$22.9

The weighted average discount rate and the rate of increase in compensation level used were 9.5% and 6%, respectively. The expected long-term rate of return on plan assets was 9.5%.

The aggregate amounts expensed for all plans were $17.3 and $16.0 million for fiscal years 1987 and 1986, respectively, and were calculated based upon actuarial interest rate assumptions ranging from 9.5% to 12%.

The funded status of the plans and the amounts included in the Company's consolidated balance sheet were as follows:

(In millions)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Plan assets at fair value, primarily publicly traded stocks and bonds	$20.6	$121.8
Actuarial present value of projected benefit obligations		
Accumulated benefit obligations		
Vested	(17.4)	(118.7)
Non-vested	(2.6)	(19.0)
Provision for future salary increases		(18.9)
Plan assets greater (less) than projected benefit obligations	.6	(34.8)
Unrecognized net loss	8.9	16.5
Unrecognized net (asset) obligations	(7.8)	13.1
Prepaid (accrued) pension cost	$ 1.7	$ (5.2)

7. Stock Incentive Plans

Under various plans, the Company may grant stock option and other awards to key executive, management and creative personnel. Transactions under the various stock option and incentive plans during fiscal 1988 were as follows:

	Number of Shares	
(In millions)	Awards Granted	Available for Grant
Outstanding at September 30, 1987	9.1	.4
1987 Stock Incentive Plan		6.5
Awards cancelled	(.9)	.9
Awards granted	1.6	(1.6)
Awards exercised	(2.3)	
Outstanding at September 30, 1988	7.5	6.2

Stock option awards are granted at prices equal to market price on the date of grant. All options expire ten years after the date of grant. Options outstanding at September 30, 1988 and 1987, respectively, range in price from $9.42 to $64.19 and $9.42 to $78.63 per share. Options of 2.6 million shares exercisable at September 30, 1988 range in price from $9.42 to $64.19 per share.

8. Stockholders' Equity

(In millions)	Shares	Common Stock(i)	Paid in Capital	Treasury Shares	Retained Earnings
Balance at September 30, 1985	129.4		$255.7		$ 929.2
Exercise of stock options, net	1.3		27.5		
Dividends ($.315 per share)					(41.0)
Net income					247.3
Balance at September 30, 1986	130.7		283.2		1,135.5
Allocation of Paid in Capital to Common Stock (i)		$13.1	(13.1)		
Exercise of stock options, net	1.1	.1	32.0		
Common stock repurchase (ii)	(.1)			$ (8.1)	
Dividends ($.32 per share)					(42.0)
Net income					444.7
Balance at September 30, 1987	131.7	13.2	302.1	(8.1)	1,538.2
Exercise of stock options, net	2.3	.2	75.3		
Common stock repurchase (ii)	(.8)	(.1)		(33.0)	
Dividends ($.38 per share)					(50.5)
Net income					522.0
Balance at September 30, 1988	133.2	$13.3	$377.4	$(41.1)	$2,009.7

(i) The Company reincorporated in Delaware in February, 1987 and authorized stock having a $0.10 par value.

(ii) Under a program to repurchase up to 14.0 million shares, the Company has repurchased shares of common stock at prevailing market prices. Shares reacquired since the Company reincorporated are being held as treasury stock.

9. Detail of Certain Balance Sheet Accounts

(In millions)	1988	1987
Accounts and Notes Receivable		
Trade, net of allowances	**$381.3**	$339.1
Notes and other	**56.6**	481.6
	$437.9	$820.7
Accounts Payable, Payroll and Other Accrued Liabilities		
Accounts payable	**$509.7**	$298.6
Payroll and employee benefits	**174.6**	137.2
Other	**14.4**	28.5
	$698.7	$464.3

10. Business Segments

(In millions)	1988	1987	1986
Capital Expenditures			
Theme parks and resorts	**$ 559.0**	$ 249.1	$ 160.0
Filmed entertainment	**16.9**	15.7	4.5
Consumer products	**6.6**	1.0	.3
Corporate	**13.2**	14.3	9.3
	$ 595.7	$ 280.1	$ 174.1
Depreciation Expense			
Theme parks and resorts	**$ 137.2**	$ 134.0	$ 113.4
Filmed entertainment	**6.8**	5.5	5.0
Consumer products	**.6**	.2	.2
Corporate	**4.0**	3.4	2.0
	$ 148.6	$ 143.1	$ 120.6
Identifiable Assets			
Theme parks and resorts	**$3,074.0**	$2,291.3	$2,158.0
Filmed entertainment	**609.5**	483.0	413.3
Consumer products	**127.0**	30.6	25.0
Corporate	**1,298.4**	549.2	121.2
	5,108.9	3,354.1	2,717.5
Discontinued operations		452.2	403.5
	$5,108.9	$3,806.3	$3,121.0
Supplemental Revenue Data			
Theme Parks and Resorts			
Admissions and rides	**$ 816.3**	$ 757.4	$ 607.1
Merchandise	**449.6**	428.4	353.2
Food	**379.5**	336.0	288.7
Other	**396.6**	312.4	274.9
	$2,042.0	$1,834.2	$1,523.9
Filmed Entertainment			
Theatrical	**$ 456.1**	$ 284.6	$ 151.7
Other	**693.1**	591.0	360.0
	$1,149.2	$ 875.6	$ 511.7

11. Acquisitions

During the second quarter of 1988, the Company acquired Wrather Corporation for approximately $161 million in cash and $89 million in debt. Wrather assets include The Disneyland Hotel, leasehold interests in The Hotel Queen Mary and Spruce Goose and other real estate holdings. During the third quarter of 1988, the Company acquired Childcraft Education Corp. for approximately $61 million in cash. Childcraft is a direct mail marketer of children's educational toys, play equipment and classroom furniture.

In April, 1987, the Company signed a definitive agreement with RKO General, a subsidiary of GenCorp Inc., and Fidelity Television, Inc., to acquire the television station KHJ-TV, Los Angeles, for approximately $320 million, contingent upon the approval of the Federal Communications Commission. The FCC has since approved the transaction, which is expected to be completed by December, 1988.

12. Discontinued Operations

In September, 1987, the Company sold the net assets of its Community Development segment for approximately $400 million comprised of cash, notes and other receivables, which were subsequently collected. Included in 1987 discontinued operations is a gain on sale of $26.6 million, net of income taxes of $3.3 million. Revenues of the Community Development segment were $263.2 million and $305.1 million in 1987 and 1986, respectively.

13. Contingencies

The Company (together with, in some instances, certain of its directors and officers) is a defendant or co-defendant in various legal actions involving antitrust, copyright, breach of contract and various other claims incident to the conduct of its businesses and legal actions related to the acquisition of Arvida and the Company's repurchase of its common stock from Reliance Insurance Company. Management does not expect the Company to suffer any material liability by reason of such actions.

QUARTERLY FINANCIAL SUMMARY

(In millions, except per share data)

	December 31	March 31	June 30	September 30
1988				
Revenues	$734.6	$774.5	$915.7	$1,013.4
Operating Income	175.6	208.0	271.3	229.9
Net Income	100.4	120.2	165.0	136.4
Earnings Per Share	.73	.87	1.20	.99
Dividends Per Share	.08	.10	.10	.10
Market Price Per Share				
High	80	65 1/4	65 5/8	65 3/8
Low	41 1/4	54	54 1/4	60
1987				
Revenues	$660.9	$706.0	$751.3	$758.6
Operating Income	154.6	187.3	233.5	201.4
Income From Continuing Operations	71.8	88.0	121.9	110.6
Discontinued Operations, Net	18.0	3.2	6.5	24.7
Net Income	89.8	91.2	128.4	135.3
Earnings Per Share				
Continuing Operations	.53	.64	.88	.80
Total	.66	.66	.93	.98
Dividends Per Share	.08	.08	.08	.08
Market Price Per Share				
High	46 3/8	65	73 3/4	82 1/2
Low	39 1/2	44	59 1/2	67 7/8

SELECTED FINANCIAL DATA

(In millions, except Per Share and Other Data)

	1988	1987	1986	1985	1984
Statement of Income Data					
Revenues	**$3,438.2**	$2,876.8	$2,165.8	$1,700.1	$1,451.6
Operating income	**884.8**	776.8	527.7	345.7	241.8
Interest expense	**5.8**	29.1	44.1	54.6	41.4
Income (loss) from continuing operations	**522.0**	392.3	213.2	132.3	(6.3)[1]
Net income	**522.0**	444.7	247.3	173.5	97.8 [2]
Balance Sheet Data					
Total assets	**$5,108.9**	$3,806.3	$3,121.0	$2,897.3	$2,739.4
Borrowings	**435.5**	584.5	547.2	823.1	861.9
Stockholders' equity	**2,359.3**	1,845.4	1,418.7	1,184.9	1,155.5
Statement of Cash Flows Data					
Cash flow	**$1,075.4**[3]	$830.6	$668.4	$518.8	$378.1
Investments					
Entertainment attractions and other property, net	**595.7**	280.1	174.1	179.8	187.6
Film production costs	**225.7**	178.3	203.7	149.9	127.6
Acquisitions	**221.7**				
Per Share Data					
Net income					
Continuing operations	**$3.80**	$2.85	$1.57	$ .98	$ .49
Total	**3.80**	3.23	1.82	1.29	.68
Cash dividends	**.38**	.32	.315	.30	.30
Other Data					
Stockholders at close of year	**124,000**	101,000	77,000	58,000	62,000
Employees at close of year	**39,000**	31,000	30,000	30,000	28,000

[1] Includes $166.0 million related to unusual charges.

[2] Includes $76.1 million related to a change in accounting for investment tax credit.

[3] Excludes $722.6 million unearned royalty advances.

BOARD OF DIRECTORS

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The Walt Disney Company

DIRECTOR EMERITUS
Joseph F. Cullman 3rd

*Member of Audit Review Committee
†Member of Compensation Committee
††Member of Executive Committee

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Gary L. Wilson
Executive Vice President and Chief Financial Officer

Joe Shapiro
Senior Vice President-General Counsel

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Vice President-Treasurer

Neil R. McCarthy
Vice President-Planning and Control

Lawrence P. Murphy
Vice President-Strategic Planning

Doris A. Smith
Vice President and Secretary

PRINCIPAL BUSINESSES WITH CHIEF EXECUTIVES

Disney Consumer Products
Barton K. Boyd

Disney Development Company
Peter S. Rummell

Euro Disneyland
Robert J. Fitzpatrick

Walt Disney Attractions
Richard A. Nunis

Walt Disney Imagineering
Martin A. Sklar

The Walt Disney Studios
Jeffrey Katzenberg
Richard H. Frank

The Disney Channel
John F. Cooke

Credits:
Designer: John Jensen
Photographers: Gary Krueger, David Strict, Jim McCrary, Bill Marshall, Kerry Nordquist, Brian Burkey, Heinz Kluetmeier, Jerry Schneider, Robert Nese, Jim DeVault, Steve Slocumb, Jane O'Neal, Gege
Illustrator: Paul Wenzel